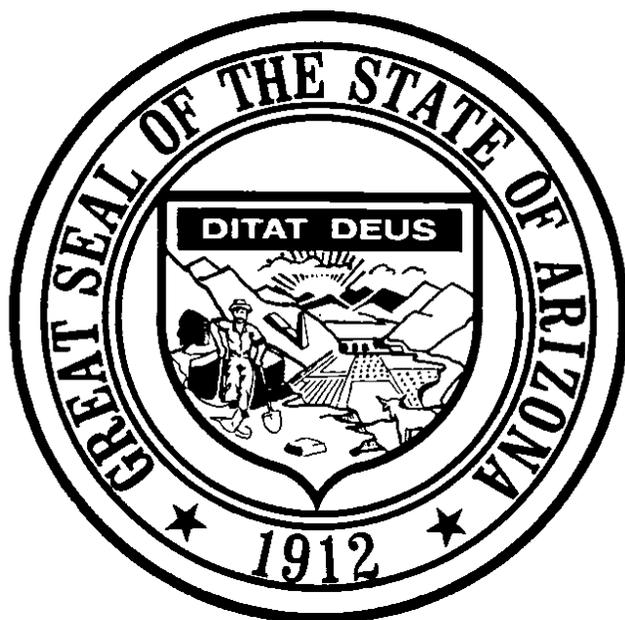


# STATE OF ARIZONA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012



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



PREPARED BY  
ARIZONA DEPARTMENT OF ADMINISTRATION  
GENERAL ACCOUNTING OFFICE



STATE OF ARIZONA  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS**

**INTRODUCTORY SECTION**  
 (Not Covered by the Independent Auditors' Report)

Letter of Transmittal .....	Page 1
Arizona State Government Organization.....	8
Principal State Officials .....	9

**FINANCIAL SECTION**

<b>INDEPENDENT AUDITORS' REPORT</b> .....	15
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	21

**BASIC FINANCIAL STATEMENTS**

**Government-Wide Financial Statements:**

Statement of Net Assets .....	38
Universities - Affiliated Component Units – Statement of Financial Position .....	40
Statement of Activities.....	42
Universities - Affiliated Component Units – Statement of Activities .....	44

**Governmental Funds Financial Statements:**

Balance Sheet .....	45
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	46
Statement of Revenues, Expenditures and Changes in Fund Balances .....	47
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	48

**Proprietary Funds Financial Statements:**

Statement of Net Assets .....	50
Statement of Revenues, Expenses and Changes in Fund Net Assets .....	54
Statement of Cash Flows.....	56

**Fiduciary Funds Financial Statements:**

Statement of Fiduciary Net Assets.....	60
Statement of Changes in Fiduciary Net Assets .....	61

**Component Units Financial Statements:**

Combining Statement of Net Assets .....	62
Combining Statement of Activities.....	64

**Universities – Affiliated Component Units Financial Statements:**

Combining Statement of Financial Position .....	66
Combining Statement of Activities.....	67

<b>Notes to the Financial Statements</b> .....	68
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**REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule, Expenditures – General Fund .....	135
Budgetary Comparison Schedule, Expenditures – Transportation and Aviation Planning, Highway Maintenance and Safety Fund .....	147
Notes to Required Supplementary Information – Budgetary Comparison Schedules .....	149
Infrastructure Assets .....	152
Agent Benefit Plans' Funding Progress.....	156

STATE OF ARIZONA  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS (CONTINUED)**

**FINANCIAL SECTION - CONCLUDED**

**COMBINING FINANCIAL STATEMENTS AND SCHEDULES**

<b>Non-major Governmental Funds:</b>	Page
Combining Balance Sheet .....	160
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	161
<i>Non-major Special Revenue Funds:</i>	
Combining Balance Sheet .....	164
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	166
Budgetary Comparison Schedule, Expenditures .....	168
<i>Land Endowments Fund:</i>	
Budgetary Comparison Schedule, Expenditures .....	178
<i>Non-major Debt Service Funds:</i>	
Combining Balance Sheet .....	180
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	182
<i>Non-major Capital Projects Funds:</i>	
Combining Balance Sheet .....	186
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	188
<b>Non-major Proprietary Funds:</b>	
<i>Non-major Enterprise Funds:</i>	
Combining Statement of Net Assets .....	192
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets .....	194
Combining Statement of Cash Flows.....	196
<i>Internal Service Funds:</i>	
Combining Statement of Net Assets .....	200
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets .....	202
Combining Statement of Cash Flows.....	204
<b>Fiduciary Funds:</b>	
<i>Pension and Other Employee Benefit Trust Funds:</i>	
Combining Statement of Fiduciary Net Assets.....	208
Combining Statement of Changes in Fiduciary Net Assets .....	210
<i>Investment Trust Funds:</i>	
Combining Statement of Fiduciary Net Assets.....	214
Combining Statement of Changes in Fiduciary Net Assets .....	215
<i>Agency Funds:</i>	
Combining Statement of Assets and Liabilities.....	219
Combining Statement of Changes in Assets and Liabilities.....	220
<b>Non-major Component Units:</b>	
Combining Statement of Net Assets .....	224
Combining Statement of Activities.....	226
<b>Non-major Universities – Affiliated Component Units:</b>	
Combining Statement of Financial Position .....	230
Combining Statement of Activities.....	232

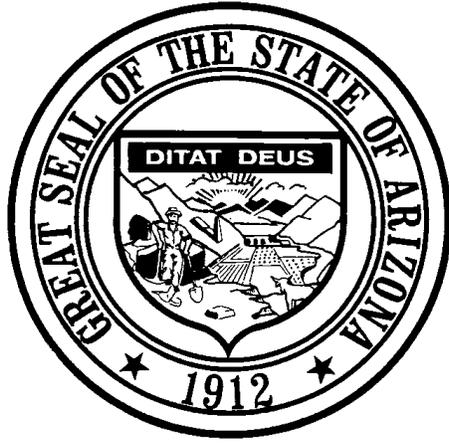
STATE OF ARIZONA  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS (CONCLUDED)**

**STATISTICAL SECTION**

(Not Covered by the Independent Auditors' Report)

<b>Financial Trends:</b>	<b>Page</b>
Schedule 1 – Net Assets by Component for the Last Ten Fiscal Years .....	238
Schedule 2 – Changes in Net Assets for the Last Ten Fiscal Years .....	240
Schedule 3 – Fund Balances, Governmental Funds for the Last Ten Fiscal Years.....	244
Schedule 4 – Changes in Fund Balances, Governmental Funds for the Last Ten Fiscal Years .....	246
 <b>Revenue Capacity:</b>	
Schedule 5 – Net Taxable Sales by Classification for the Last Ten Fiscal Years .....	250
Schedule 6 – Sales Tax Revenue Payers by Classification, Current Year and Nine Years Ago.....	253
Schedule 7 – Personal Income by Industry for the Last Ten Calendar Years .....	254
Schedule 8 – Personal Income Tax Rates for the Last Ten Calendar Years .....	256
Schedule 9 – Personal Income Tax Filers and Liability by Income Level for the Taxable Years 2009 and 2002.....	256
 <b>Debt Capacity:</b>	
Schedule 10 – Ratios of Outstanding Debt by Type for the Last Ten Fiscal Years.....	258
Schedule 11 – Legal Debt Margin Information, Arizona Transportation Board Highway Revenue Bonds for the Last Ten Fiscal Years .....	260
Schedule 12 – Legal Debt Margin Information, Arizona State University, for the Last Seven Fiscal Years.....	260
Schedule 13 – Legal Debt Margin Information, University of Arizona, for the Last Six Fiscal Years.....	261
Schedule 14 – Legal Debt Margin Information, Northern Arizona University, for the Last Six Fiscal Years.....	261
Schedule 15 – Pledged-Revenue Coverage, Arizona Transportation Board Highway Revenue Bonds for the Last Ten Fiscal Years .....	262
Schedule 16 – Pledged-Revenue Coverage, Arizona Transportation Board Transportation Excise Tax Revenue Bonds for the Last Ten Fiscal Years.....	262
Schedule 17 – Pledged-Revenue Coverage, School Facilities Board State School Improvement Revenue Bonds for the Last Ten Fiscal Years .....	263
Schedule 18 – Pledged-Revenue Coverage, School Facilities Board State School Trust Revenue Bonds for the Last Nine Fiscal Years.....	263
Schedule 19 – Pledged-Revenue Coverage, Lottery Revenue Bonds for the Last Two Fiscal Years .....	264
Schedule 20 – Pledged-Revenue Coverage, Arizona State University Revenue Bonds for the Last Ten Fiscal Years .....	264
Schedule 21 – Pledged-Revenue Coverage, University of Arizona Revenue Bonds for the Last Ten Fiscal Years .....	265
Schedule 22 – Pledged-Revenue Coverage, Northern Arizona University Revenue Bonds for the Last Ten Fiscal Years .....	265
 <b>Demographic and Economic Information:</b>	
Schedule 23 – Demographic and Economic Statistics for the Last Ten Calendar Years .....	267
Schedule 24 – Principal Employers, Current Year and Nine Years Ago .....	267
 <b>Operating Information:</b>	
Schedule 25 – State Employees by Function for the Last Nine Fiscal Years.....	268
Schedule 26 – Operating Indicators by Function for the Last Ten Fiscal Years.....	270
Schedule 27 – Capital Asset Statistics by Function for the Last Ten Fiscal Years.....	272



# INTRODUCTORY SECTION





Janice K. Brewer  
Governor

Brian C. McNeil  
Director

## ARIZONA DEPARTMENT OF ADMINISTRATION

### OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE | SUITE 401  
PHOENIX, ARIZONA 85007

(602) 542-1500

January 14, 2013

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

Ladies and Gentlemen:

It is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arizona for the fiscal year ended June 30, 2012. Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the major and non-major funds of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

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

### **INTERNAL CONTROLS**

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

### **INDEPENDENT AUDIT**

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

## **ARIZONA**

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

## **PROFILE OF THE GOVERNMENT**

The State has three branches of government: Executive, Legislative, and Judicial. The Executive branch is headed by a Governor elected for a four-year term. Arizona's Legislative branch is bicameral, consisting of a thirty-member Senate and a sixty-member House of Representatives. Legislators are elected for two-year terms. The Judicial branch consists of the Arizona Supreme Court, Court of Appeals (with two divisions), superior courts, justice of the peace courts, and municipal courts. The superior courts, justice of the peace courts, and municipal courts are excluded from the State's reporting entity. The Supreme Court is the highest court in the State and is comprised of five justices. Article 6, Section 5 of the Arizona State Constitution describes the types of cases and matters handled by the Supreme Court.

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

## **FINANCIAL REPORTING ENTITY**

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

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

## **BUDGETARY CONTROLS**

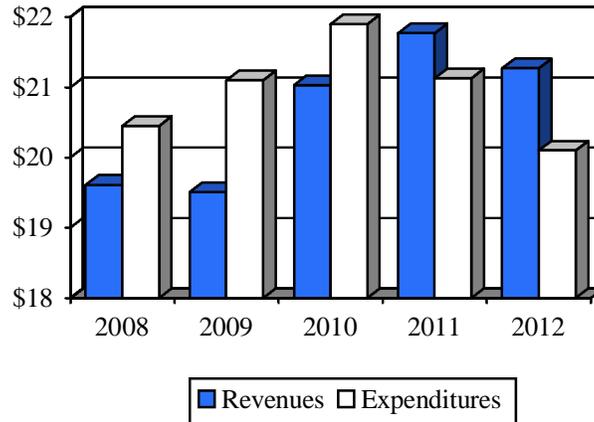
Budgetary control is maintained through legislative appropriation and the Executive branch allotment process. The Governor is required to submit an annual budget to the Legislature. The budget is legally required to be adopted through passage of appropriation bills by the Legislature and approval by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

**GENERAL FUND BALANCE**

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

Graph 1

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

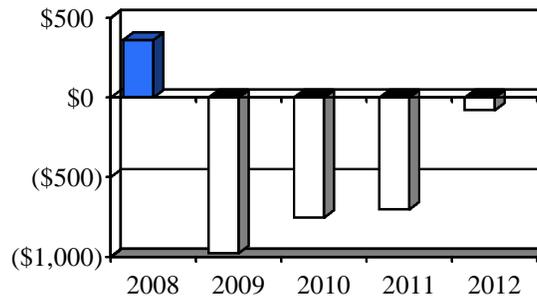


The General Fund ended the June 30, 2012 fiscal year with a total fund balance deficit of \$79.7 million. This compares to the previous year’s total fund balance deficit of \$703.2 million.

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

Graph 2

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



**ECONOMIC CONDITION AND OUTLOOK**

The following economic summary is based on the Arizona Department of Administration’s Employment Forecast Update, released on November 1, 2012.

**Overview**

The Office of Employment and Population Statistics within the Arizona Department of Administration is forecasting a gradual increase in nonfarm employment in Arizona for the 2012-2013 projections time period. In comparison to the employment forecast released earlier in May, nonfarm employment growth has been forecast to be slightly greater in both 2012 and 2013. An over-the-year gain of 51,200 nonfarm jobs was estimated for 2012 and 60,900 is projected for 2013. The previous forecast in May was for a 47,000 job gain in 2012 and 55,800 in 2013. In the current forecast, the rate of growth projected for total nonfarm employment is 2.1 percent in 2012 and 2.5 percent in 2013. A total of 112,200 nonfarm jobs are forecast to be gained over the two projected years (2012 and 2013).

The overall employment situation in Arizona is improving. An initial increase in home prices in Arizona and some other states is a positive sign. There are a number of factors that have helped the U.S., as well as Arizona's economy, gradually improve and add jobs:

- i Continued improvement in real Gross Domestic Product, real personal income at the state and national levels, employment, and retail sales.
- i Continued employment gains in the private sector, increasing private domestic investment, gradual rise in the index of industrial production and rate of capacity utilization, high levels of corporate profit, a gradual resurgence in private residential construction permits.
- i Continued gradual climb in household net worth as the decline in U.S. home prices have slowed, a continued decline in the fraction of disposable income used for household debt payments, and continued growth in U.S. exports.
- i Further stabilization of home prices in Arizona, with some rise in the Phoenix metropolitan area. The residential real estate market in Arizona and Phoenix metropolitan area is showing an improvement as measured by various indicators, including an increase in the number of building permits issued.
- i Expansion of non-revolving consumer credit since 2011 has served as an impetus to expanding economic activity, although revolving consumer credit levels have remained flat. Consumer sentiment and consumer spending has shown signs of improvement.

With an improving domestic economy and employment growth in the private sector, consumers are expected to spend more as their incomes rise. Increased spending will generate further economic activity, creating a higher demand for goods and services. Outside of the U.S., the economies of Asia and Latin America are expected to grow at a slower pace during the forecast time period. These expanding foreign economies are projected to create growing demand for exports that are fabricated in the U.S. and Arizona.

Although positive signs of economic improvement continue, there are some domestic factors that could dampen the growth of the local economy. Regardless of the uncertainties, we remain confident in both the strength of the positive signs described above, and in our forecast. Nevertheless, the following possible threats should be considered:

- i Constrained budgets as well as economic and financial uncertainty for a large majority of households. Despite some job growth, many consumers in the U.S. continue to face employment insecurity, lower wages and benefits, high levels of debt, rising gasoline costs, and rising prices for essentials such as food, energy, and healthcare that limits the amount of funds available for discretionary spending. The most recent drought in the Midwestern states, an important agricultural region, has already sent food prices soaring in the U.S. and the rest of the world.
- i Weak real estate markets in both the residential and commercial sectors could inhibit the overall economy. Signs of weakness include vacant properties, non-performing loans, under water mortgages and continued home mortgage foreclosures. The residential real estate market, although in the beginning stages of a gradual recovery, is showing more signs of a recovery than the commercial real estate market.
- i Business reluctance to invest despite high levels of corporate profits and cash reserves as a consequence of demand uncertainty.
- i Public sector fiscal consolidation through spending reductions and/or tax increases to reduce debts could have a bearing on the growth of the economy as a result of the impending "fiscal cliff", the conundrum that the U.S. government will face given the terms of the Budget Control Act of 2011. According to a pre-arranged legislative agreement, scheduled spending will be reduced and taxes will rise to reduce the federal government deficit and debt levels. Spending is scheduled to be reduced in both civilian and military programs. Tax cuts are scheduled to expire and new taxes have been legislated to begin in 2013. Reduced spending and increased taxes are expected to lower the level of aggregate demand in the U.S. economy and slow the rate of economic and employment growth.
- i Besides the federal government, state and local governments continue to have budget problems. Many state and local governments have recently been using increases in tax revenues to build up emergency reserve funds to deal with any future economic downturns and have not been increasing their levels of spending.

In addition to the factors listed above, there is some uncertainty on the international front:

- i Debt repayment problems in the Euro Monetary Zone economies, and economic contraction. Countries in the Euro Monetary Zone serve as an important market for U.S. exports. They also serve as a source of foreign investment funds for U.S. financial markets. U.S. investments in European banks could run the risk of devaluation and default in a recession. However, news of proposed European Central Bank support for sovereign debt reduces the risk. Although trade with Arizona is limited, it exposes the U.S. to the risk of European financial and economic problems.
- i Potential international military conflict in the Persian Gulf with Iran. A military conflict could disrupt the flow of oil out of the Persian Gulf and the Middle East, restrict the global supply of petroleum, further increase gasoline prices, and restrict economic activity around the world.

- i Economic growth is slowing in the People's Republic of China resulting from a reduced pace of expansion in China's export markets. The Chinese government is beginning the process of changing the structure of the Chinese mainland economy from being driven by low value added goods for export to Europe, the U.S., and the rest of the world to more value added manufactured goods using higher technology and higher skilled labor for their internal demand. This could create a new middle class dependent on U.S. imports. In the short run, the magnitude of the impact of the slowdown in China is not certain.

### **Individual Sectors**

The Professional and Business Services sector is projected to have an increase of 9,800 jobs, or 2.9 percent, in 2012 and 11,700 jobs, or 3.3 percent, in 2013. The sub-sectors with the largest projected job gains over the projection period include Employment Services, Services to Buildings and Dwellings and Professional, Scientific and Technical Services. Business firms are expected to hire contingent labor as a lower cost means to expand output during the early, uncertain stages of an economic recovery. Management and Business Support Services are the sub-sectors with forecast job losses. A continued need to control costs and minimize expenditures is the cause of the projected employment decreases in Management and Business Support services.

The Educational and Health Services sector is forecast to gain 9,700 jobs, or 2.7 percent, in 2012 and 10,800 jobs, or 2.9 percent, in 2013. The largest projected increases in employment are forecast in the sub-sectors of Ambulatory Health Services and Hospitals. Government spending reductions have the potential to severely curtail growth in the healthcare sectors. Private Educational Services are the sub-sectors with the smallest projected gains in employment as a result of more people leaving school to re-enter the workforce in an improving economy.

The Trade, Transportation, and Utilities sector is forecast to gain 9,300 jobs, or 2.0 percent, in 2012 and 10,500 jobs, or 2.2 percent, in 2013. The order of sub-sectors with the largest to smallest forecast gains include: Retail Trade; Transportation, Warehousing and Utilities; and Wholesale Trade. In the Retail Trade sub-sectors, Food and Beverage stores along with Motor Vehicles and Parts Dealers sub-sectors have the largest projected increases in employment. Improving consumer finances is anticipated to increase consumer spending and, therefore, contribute to job gains in Retail Trade. In the Transportation, Warehousing, and Utilities sub-sectors, Truck Transportation is forecast to have the largest job gains. Increases in employment are projected across most other sub-sectors including Air Transportation and Utilities.

The Leisure and Hospitality (L&H) sector is projected to have an increase of 8,600 jobs, or 3.3 percent, in 2012 and 9,500 jobs, or 3.5 percent, in 2013. The sub-sectors with the largest projected job gains are Food Services and Drinking Places and Arts, Entertainment and Recreation. Despite a projected increase in employment from 2012 to 2013, Accommodations has a slight forecasted loss in jobs for 2012. Growing demand for domestic and international tourism is projected to bolster employment in the L&H sector.

The Construction sector is forecast to gain 6,100 jobs, or 5.5 percent, in 2012 and 7,000 jobs, or 5.9 percent, in 2013. The largest forecast job gains from 2011 to 2013 are in the sub-sectors of Specialty Trades followed by Heavy and Civil Engineering Construction. Building construction is the only sub-sector with projected job losses. Repair and maintenance activities along with new infrastructure projects such as the expansion of light rail in Phoenix are expected to bolster employment in Specialty Trades and Heavy and Civil Engineering Construction sub-sectors. The vacant properties in residential and commercial real estate are anticipated to stop the growth of employment in Building Construction sub-sectors.

The Financial Activities sector is projected to have an employment increase of 5,000 jobs, or 3.0 percent, in 2012 and 5,400 jobs, or 3.1 percent, in 2013. During the 2011 to 2013 forecast time frame, the sub-sectors with the largest projected gains in employment are: Credit Intermediation and Monetary Authorities; Real Estate, Rental and Leasing; and Securities, Commodities Contracts and Investments. Insurance, Funds and Trusts also has projected job gains.

The Government sector is forecast to gain 2,000 jobs, or 0.5 percent, in 2012 and 3,800 jobs, or 0.9 percent, in 2013. The majority of projected increases in employment from 2011 to 2013 are in the sub-sectors of public education at the State and Local government levels. Slight job gains are also forecast for the non-education sectors of local government. However, job losses are projected for the Federal government and non-education sectors of State government.

The Manufacturing sector is projected to have an employment increase of 2,000 jobs, or 1.4 percent, in 2012 and 2,900 jobs, or 1.9 percent, in 2013. From 2011 to 2013, job gains are forecast across most Durable Goods sectors including Fabricated Metals, Aerospace and Computer and Electronic products, and Non-Durable Goods. However, job losses are projected in the unreported Durable Goods sectors.

The Natural Resources and Mining (NRM) sector is forecast to gain 200 jobs, or 1.9 percent, in 2012 and less than 50 jobs, or 0.4 percent, in 2013. From 2011 to 2013, slowing job gains are projected in Metal Ore Mining sub-sectors as a consequence of slowing economic growth in Asia and an emerging recession in Europe. Reductions in employment levels are forecast in the Non-Metal Ore Mining sub-sectors of the NRM.

The Information sector is projected to have a decrease in employment of 100 jobs, or 0.1 percent, in 2012 and an increase in employment of 300 jobs, or 0.8 percent in 2013. During the 2011 to 2013 projections time frame, slowing job losses are forecast in the Telecommunications sub-sectors. However, accelerating job gains are projected in the Non-Telecommunications sub-sectors.

The Other Services sector is forecast to lose 1,600 jobs, or 1.8 percent in 2012 and 900 jobs, or 1.0 percent in 2013. Increased employment insecurity, reduced wages and benefits, large levels of consumer and mortgage debt, and rising food, energy and healthcare costs have resulted in retrenchment of consumer spending towards establishments primarily engaged in raising funds for a wide range of social welfare activities. These establishments include foundations or charitable trusts, religious, professional, and civic organizations, etc.

### **MAJOR INITIATIVES**

Arizona's economic condition during fiscal year 2012 continued to improve over the previous year resulting in a steady upward trend in General Fund tax revenue collections. The fiscal year 2012 budget included the continued additional support to the General Fund of the temporary 1-cent sales tax increase that became effective June 1, 2010. The State Legislature enacted laws regarding millions in shortfall solutions as part of the fiscal year 2012 budget that included spending reductions, fund transfers and revenue adjustments. Additionally, the State Legislature implemented new ongoing revenue from higher local contributions, including increased county cash contributions, and shifting Motor Vehicle Division and Department of Public Safety funding from the Highway Fund to the Highway User Revenue Fund (HURF). New one-time revenues enacted by the Legislature included a tax amnesty program which began in September 2011. Also, decreased contributions to urban revenue sharing based on state income tax collections resulted in significant revenue gains as well.

### **AWARDS AND ACKNOWLEDGMENTS**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arizona for its CAFR for the fiscal year ended June 30, 2011. This was the eighth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

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



Brian C. McNeil  
Director



D. Clark Partridge  
State Comptroller

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## State of Arizona

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



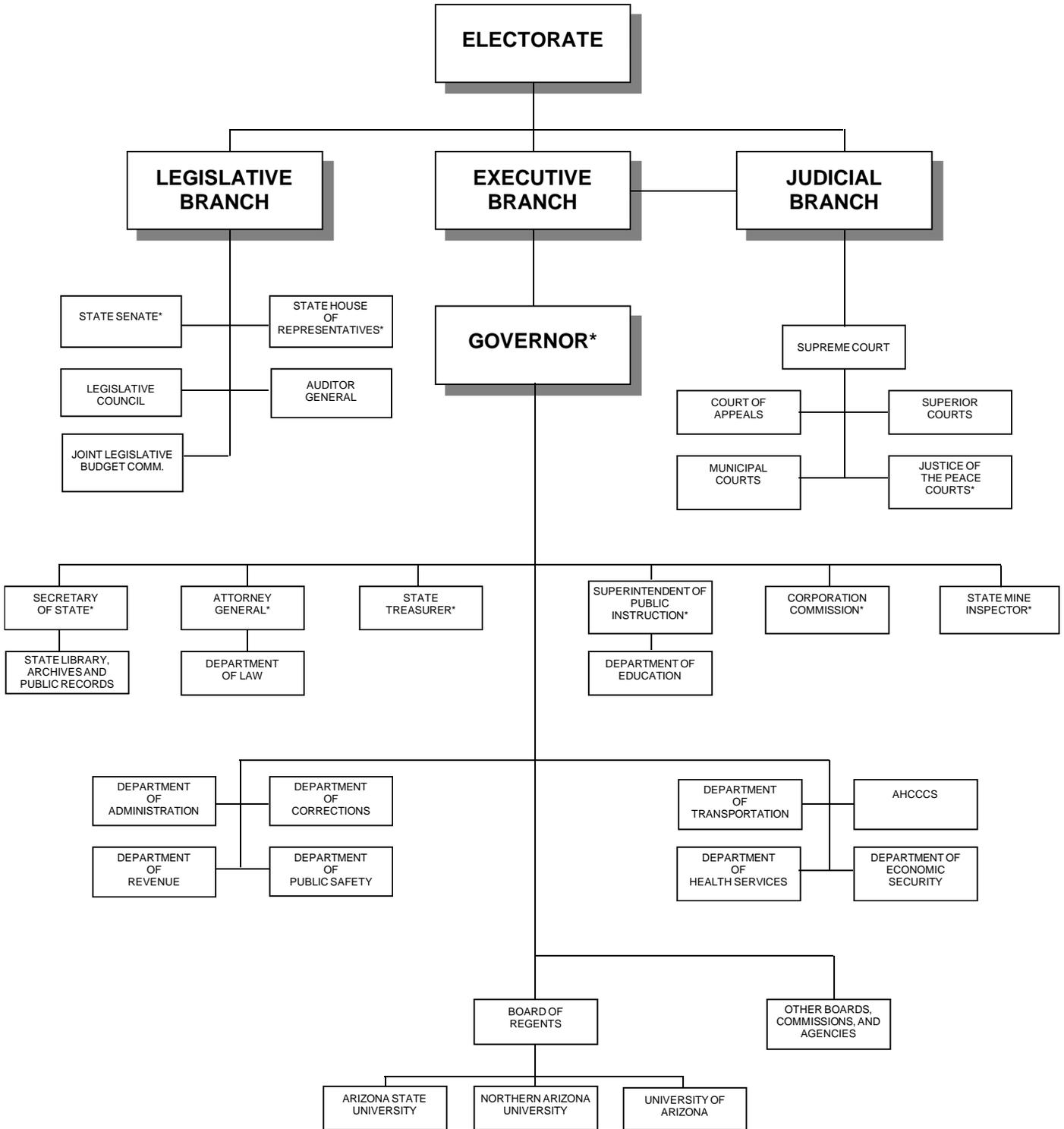
*Christopher P. Moynell*

President

*Jeffrey R. Emsw*

Executive Director

# ARIZONA STATE GOVERNMENT ORGANIZATION



\* ELECTED OFFICIALS

STATE OF ARIZONA  
**PRINCIPAL STATE OFFICIALS**  
JUNE 30, 2012

**ELECTED OFFICIALS**

Janice K. Brewer, Governor

Senator Steve Pierce, President of the Senate

Representative Andy Tobin, Speaker of the House

Ken Bennett, Secretary of State

Tom Horne, Attorney General

Joe Hart, State Mine Inspector

Doug Ducey, State Treasurer

John Huppenthal, Superintendent of Public Instruction

Gary Pierce, Chairman – Corporation Commission

Brenda Burns, Commissioner – Corporation Commission

Sandra D. Kennedy, Commissioner – Corporation  
Commission

Paul Newman, Commissioner – Corporation Commission

Bob Stump, Commissioner – Corporation Commission

**APPOINTED OFFICIALS**

Executive Officials

Brian C. McNeil, Director – Department of  
Administration - current

Scott A. Smith, Director – Department of Administration -  
through October 2012

Charles L. Ryan, Director – Department of Corrections

Clarence H. Carter, Director – Department of Economic  
Security

John A. Greene, Director – Department of Revenue

Robert Halliday, Director – Department of Public Safety

Will Humble, Director – Department of Health Services

Tom Betlach, Director – Arizona Health Care Cost  
Containment System

John S. Halikowski, Director – Department of  
Transportation

Judicial Officials

Rebecca White Berch, Chief Justice – Supreme Court

Legislative Officials

Michael E. Braun, Executive Director – Legislative Council

Richard Stavneak, Director – Joint Legislative Budget  
Committee

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

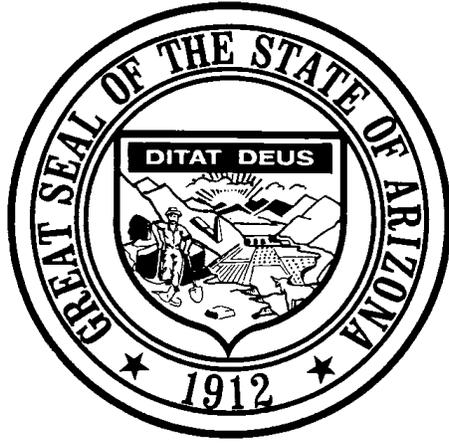
University Officials

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

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

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

Dr. Eugene G. Sander, President – University of Arizona –  
through June 2012



# FINANCIAL SECTION



INDEPENDENT  
AUDITORS' REPORT

**INDEPENDENT AUDITORS' REPORT**



**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

The Honorable Janice K. Brewer, Governor  
State of Arizona

The Honorable Andy Biggs, President  
Arizona State Senate

The Honorable Andy Tobin, Speaker  
Arizona House of Representatives

The Honorable Rebecca White Berch, Chief Justice  
Arizona Supreme Court

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, 2012, 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, the State's retirement plans, and certain discretely presented component units, which account for the following percentages of the assets and revenues, additions, and other financing sources, as applicable, of the opinion units affected:

<b>Opinion Unit/Department</b>	<b>Assets</b>	<b>Revenues/Additions/ Other Financing Sources</b>
<u>Government-wide Statements</u>		
Governmental activities:		
Arizona Department of Transportation	66.19%	11.55%
Arizona Health Care Cost Containment System	2.83%	16.39%
Early Childhood Development and Health Board	1.49%	0.52%
Business-type activities:		
Arizona Correctional Industries	0.23%	0.69%
Arizona Department of Transportation	1.14%	0.11%
Arizona Health Care Cost Containment System	0.13%	0.56%
Arizona State Lottery	1.10%	11.58%
Aggregate discretely presented component units	98.29%	99.05%

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
<u>Fund Statements</u>		
Major Governmental Funds:		
General Fund—Arizona Health Care Cost Containment System	26.78%	19.14%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund—Arizona Department of Transportation	100.00%	100.00%
Major Enterprise Fund:		
Lottery Fund—Arizona State Lottery	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Correctional Industries	0.04%	0.59%
Arizona Department of Transportation	1.28%	18.82%
Arizona Health Care Cost Containment System	0.13%	2.54%
Arizona State Retirement System	63.54%	34.81%
Corrections Officer Retirement Plan	2.91%	1.51%
Early Childhood Development and Health Board	1.00%	2.03%
Elected Officials' Retirement Plan	0.67%	0.39%
Public Safety Personnel Retirement System	11.46%	5.84%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those departments, retirement plans, and component units, are based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Arizona Power Authority, the University of Arizona Health Network, and the Universities - Affiliated Component Units, except for those of the University Public Schools, Inc., which were reported as discretely presented component units, were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit 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, 2012, 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.

Amounts presented for the Rio Nuevo Multipurpose Facilities District (Rio Nuevo) as of and for the year ended June 30, 2012, were unaudited. Rio Nuevo is a discretely presented component unit of the State and is included in the component units column on the government-wide financial statements. This had no effect on our opinion for the aggregate discretely presented component units as of and for the year ended June 30, 2012.

As described in Note 1.O, the State established the Arizona Commerce Authority on July 1, 2011, that was reported as a discretely presented component unit. This constitutes a change in reporting entity.

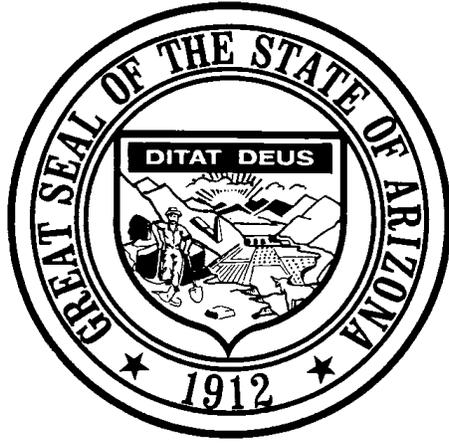
U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 21 through 33, the Budgetary Comparison Schedules on pages 135 through 151, the Infrastructure Assets information on pages 152 through 155, and the Agent Benefit Plans' Funding Progress on page 156 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual fund statements and schedules and the introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information is the responsibility of the State's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

January 14, 2013



MANAGEMENT'S  
DISCUSSION  
AND  
ANALYSIS



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Arizona's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

### FINANCIAL HIGHLIGHTS

#### Government-wide:

- i The assets of the State exceeded liabilities at the close of the fiscal year by \$21.7 billion (reported as net assets). Of this amount, a deficit of \$2.5 billion exists for unrestricted net assets, \$5.8 billion is restricted for specific purposes (restricted net assets), and \$18.4 billion is invested in capital assets, net of related debt.
- i The State's total net assets increased in fiscal year 2012 by \$1.9 billion. Net assets of governmental activities increased by \$1.7 billion, while net assets of the business-type activities increased by \$194.4 million.

#### Fund Level:

- i As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$5.5 billion, an increase of \$1.1 billion from the beginning of the year. After accounting for non-spendable, restricted, and committed fund balances of \$3.5 billion, \$1.9 billion, and \$623.6 million, respectively, the State's unassigned fund balance had a deficit of \$470.9 million, or 9% of combined fund balances.
- i As of the close of the fiscal year, unassigned fund balance for the General Fund had a deficit of \$437.0 million, which is approximately 2% of total General Fund expenditures.
- i The Land Endowments Fund reported fund balance at fiscal year end of \$3.4 billion, an increase of \$234.6 million during the year. The Land Endowments Fund is used to help finance public education within the State as required by the federal government and the State's Constitution.
- i The enterprise funds reported net assets at fiscal year end of \$2.7 billion, an increase of \$155.4 million during the year.

#### Long-term Debt:

- i The State's total long-term primary government debt increased during the fiscal year to \$10.2 billion, an increase of \$117.3 million (or 1%). Changes during the year included the addition of revenue bonds, grant anticipation notes, and certificates of participation, of \$1.1 billion, \$43.8 million, and \$158.1 million, respectively. Included in the increase in long-term primary government debt are increases in net issuance premiums of \$147.4 million and increases in deferred amounts on refundings of \$15.2 million. Also, the State retired \$814.6 million of revenue bonds, \$101.1 million of grant anticipation notes, and \$329.3 million of certificates of participation.

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The government-wide financial statements provide a broad overview of the State of Arizona's finances in a manner similar to private sector business. The financial statements report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better or worse off as a result of this year's activities? These statements include all non-fiduciary assets 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). Additionally, long-term assets and liabilities are reported regardless of when these assets are expected to be converted to cash, or when the liability is expected to be liquidated (e.g., capital assets and long-term debt).

Government-wide statements report three activities:

- i *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- i *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, the State's unemployment compensation services, the Industrial Commission Special Fund, and the State's three universities are examples of business-type activities.
- i *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the State are financially accountable. The Water Infrastructure Finance Authority, the University of Arizona Health Network, the Arizona Power Authority, the Rio Nuevo Multipurpose Facilities District, the Greater Arizona Development Authority, and the Arizona Commerce Authority are discretely presented component units reported by the State. Based on GASB Statement No. 39, the State has added component units affiliated with the Universities 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, the Arizona Capital Facilities Finance Corporation, the U of A Foundation, and other non-major component units affiliated with the Universities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by GASB, and include a statement of financial position (**page 40**) and a statement of activities (**page 44**). See **pages 69-72 and 120-131** 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.

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

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

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

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

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

**Fiduciary fund financial statements can be found 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 69 of this report.**

#### **Required Supplementary Information**

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

**Required supplementary information begins on page 135 of this report.**

#### **Other Supplementary Information**

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

**Other supplementary information begins on page 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, 2012 and 2011  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 5,057,124	\$ 3,918,220	\$ 1,372,172	\$ 1,366,923	\$ 6,429,296	\$ 5,285,143
Capital assets	20,394,137	19,809,830	4,080,053	3,780,580	24,474,190	23,590,410
Other non-current assets	5,049,766	4,835,725	1,556,428	1,479,125	6,606,194	6,314,850
<b>Total Assets</b>	<b>30,501,027</b>	<b>28,563,775</b>	<b>7,008,653</b>	<b>6,626,628</b>	<b>37,509,680</b>	<b>35,190,403</b>
Current liabilities	4,188,849	3,888,505	838,541	886,322	5,027,390	4,774,827
Non-current liabilities	7,373,015	7,466,998	3,380,777	3,145,324	10,753,792	10,612,322
<b>Total Liabilities</b>	<b>11,561,864</b>	<b>11,355,503</b>	<b>4,219,318</b>	<b>4,031,646</b>	<b>15,781,182</b>	<b>15,387,149</b>
Net assets:						
Invested in capital assets, net of related debt	16,940,512	16,326,569	1,483,416	1,397,683	18,423,928	17,724,252
Restricted net assets	5,349,966	5,125,527	496,444	501,437	5,846,410	5,626,964
Unrestricted net assets	(3,351,315)	(4,243,824)	809,475	695,862	(2,541,840)	(3,547,962)
<b>Total Net Assets</b>	<b>\$ 18,939,163</b>	<b>\$ 17,208,272</b>	<b>\$ 2,789,335</b>	<b>\$ 2,594,982</b>	<b>\$ 21,728,498</b>	<b>\$ 19,803,254</b>

For the year ended June 30, 2012, the State's combined net assets totaled \$21.7 billion, reflecting an increase of \$1.9 billion during the current fiscal year.

The largest portion of the State's net assets (85%) represents capital assets, net of related debt of \$18.4 billion. Additions to roads and bridges provided the majority of the governmental activities increase of \$613.9 million. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt are planned to be provided from other sources, since the capital assets themselves are not typically used to liquidate these liabilities.

The State's net assets also included \$5.8 billion (27%) of resources that are subject to external restrictions on how they may be used. The governmental activities increase in restricted net assets of \$224.4 million is primarily the result of an increase of \$253.7 million in the amount restricted by the State's Constitution for basic education funded by the Land Endowments Fund. This increase was partially offset by reductions of restrictions for other government programs.

After accounting for the above net asset restrictions, the State has a remaining deficit of \$2.5 billion (12%) reported as unrestricted net assets.

State of Arizona-Primary Government  
Changes in Net Assets for Fiscal Years June 30, 2012 and 2011  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 847,502	\$ 837,714	\$ 2,983,424	\$ 2,745,116	\$ 3,830,926	\$ 3,582,830
Operating grants and contributions	11,357,470	12,580,013	1,705,773	2,212,673	13,063,243	14,792,686
Capital grants and contributions	778,572	745,559	53,571	14,799	832,143	760,358
<b>General revenues:</b>						
Sales taxes	6,296,151	5,942,250	55,309	52,913	6,351,460	5,995,163
Income taxes	3,706,698	3,366,783	-	-	3,706,698	3,366,783
Tobacco taxes	317,369	320,657	-	-	317,369	320,657
Property taxes	30,656	32,038	-	-	30,656	32,038
Motor vehicle and fuel taxes	1,581,909	1,565,525	-	-	1,581,909	1,565,525
Other taxes	522,510	550,430	-	-	522,510	550,430
Unrestricted investment earnings	79,190	29,183	49,501	68,401	128,691	97,584
Unrestricted grants and contributions	40,678	16,468	3,468	-	44,146	16,468
Gain (loss) on sale of trust land	125,479	(154,359)	-	-	125,479	(154,359)
Miscellaneous revenue	167,604	140,854	155,757	50,510	323,361	191,364
<b>Total Revenues</b>	<b>25,851,788</b>	<b>25,973,115</b>	<b>5,006,803</b>	<b>5,144,412</b>	<b>30,858,591</b>	<b>31,117,527</b>
<b>Expenses:</b>						
General government	840,189	929,107	-	-	840,189	929,107
Health and welfare	11,992,408	12,558,119	-	-	11,992,408	12,558,119
Inspection and regulation	151,937	149,649	-	-	151,937	149,649
Education	5,331,848	5,467,543	-	-	5,331,848	5,467,543
Protection and safety	1,380,999	1,299,205	-	-	1,380,999	1,299,205
Transportation	808,967	857,194	-	-	808,967	857,194
Natural resources	213,339	196,210	-	-	213,339	196,210
Intergovernmental revenue sharing	2,473,881	2,462,178	-	-	2,473,881	2,462,178
Interest on long-term debt	350,483	341,801	-	-	350,483	341,801
Universities	-	-	3,629,568	3,533,977	3,629,568	3,533,977
Unemployment Compensation	-	-	1,069,531	1,655,364	1,069,531	1,655,364
Industrial Commission Special Fund	-	-	83,290	27,196	83,290	27,196
Lottery	-	-	496,830	439,069	496,830	439,069
Other business-type activities	-	-	113,347	115,442	113,347	115,442
<b>Total Expenses</b>	<b>23,544,051</b>	<b>24,261,006</b>	<b>5,392,566</b>	<b>5,771,048</b>	<b>28,936,617</b>	<b>30,032,054</b>
Excess (deficiency) before contributions, extraordinary item, and transfers	2,307,737	1,712,109	(385,763)	(626,636)	1,921,974	1,085,473
Contributions to permanent endowments	-	-	3,270	3,656	3,270	3,656
Extraordinary item: Insurance recovery, net of impairment loss	-	-	-	3,884	-	3,884
Transfers	(576,846)	(734,892)	576,846	734,892	-	-
<b>Change in Net Assets</b>	<b>1,730,891</b>	<b>977,217</b>	<b>194,353</b>	<b>115,796</b>	<b>1,925,244</b>	<b>1,093,013</b>
Net Assets - July 1	17,208,272	16,231,055	2,594,982	2,479,186	19,803,254	18,710,241
<b>Net Assets - June 30</b>	<b>\$ 18,939,163</b>	<b>\$ 17,208,272</b>	<b>\$ 2,789,335</b>	<b>\$ 2,594,982</b>	<b>\$ 21,728,498</b>	<b>\$ 19,803,254</b>

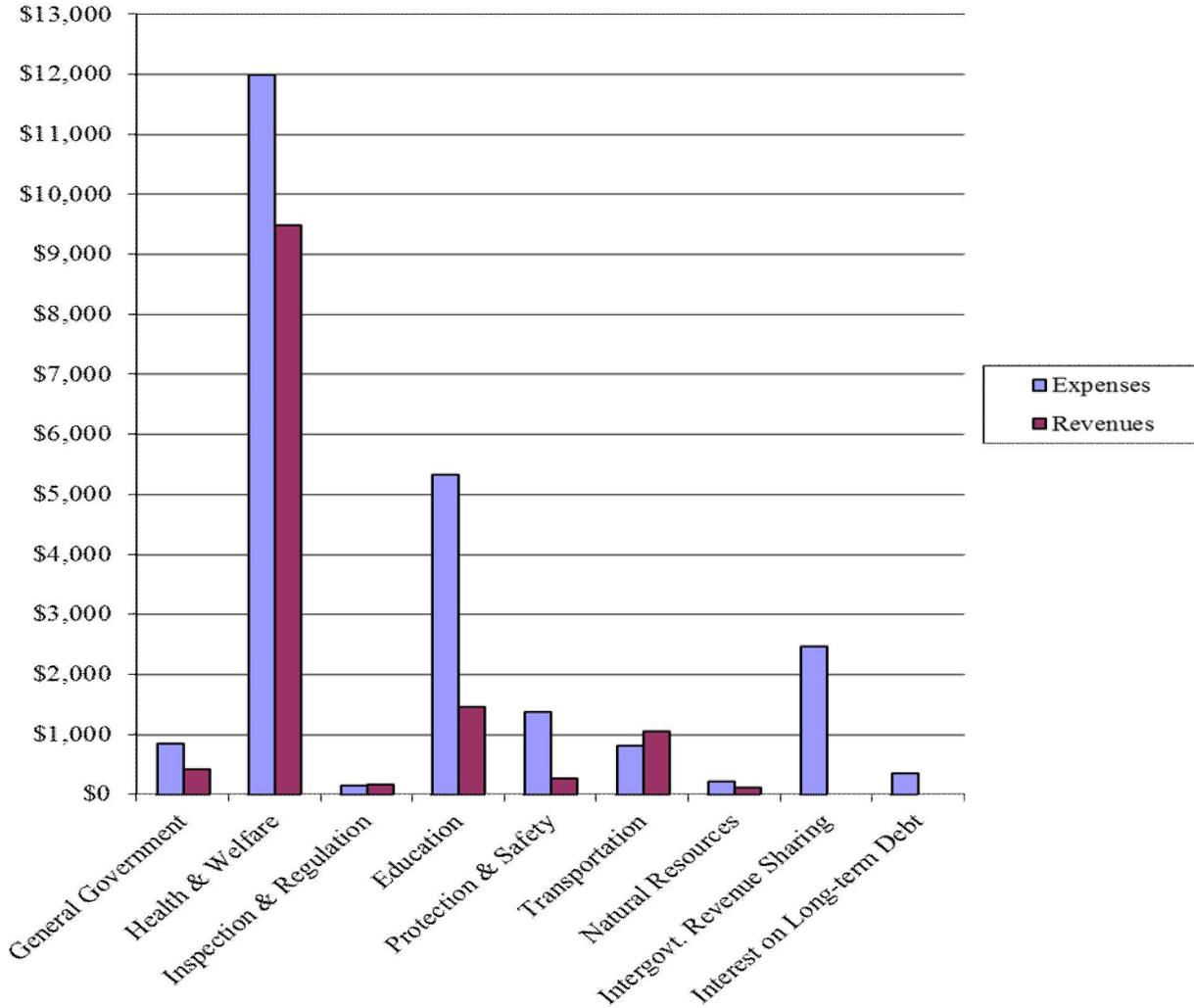
## Change in Net Assets

*Governmental Activities* – Net Assets increased by \$1.7 billion from fiscal year 2011, or a 10% increase from fiscal year 2011 total net assets. Reported sales tax and income tax revenues increased by \$353.9 million, or 6%, and \$339.9 million, or 10%, from fiscal year 2011, respectively. The increase in tax collections generally reflects increased economic activity in the State during fiscal year 2012. Net taxable sales increased by approximately 6% from fiscal year 2011 resulting in the increased reported sales tax revenue. The largest increases in net taxable sales during fiscal year 2012 were in retail sales, use tax, restaurants and bars, and contracting. Over half of the increase in income tax revenue for the State during fiscal year 2012 was due to increased withholding and individual income tax collections; however, corporate income tax revenue also increased during the year. During fiscal year 2012, the State received less federal stimulus funds from the American Recovery and Reinvestment Act (ARRA). This contributed to the decrease in fiscal year 2012 operating grants and contributions revenue of \$1.2 billion, or 10%, as compared to fiscal year 2011; however, the decrease in ARRA funding also resulted in decreased expenses in health and welfare and education. In addition, there was a \$279.8 million net increase on the sale of State trust land. This increase resulted from land sales and no additional increase to the estimate of uncollectable accounts receivable recognized in fiscal year 2011 due to the non-payment of long-term sales contracts. Furthermore, there were decreases in expenses for health and welfare and education of \$565.7 million and \$135.7 million, respectively. The decrease in health and welfare expenses resulted primarily from the AHCCCS implementing program changes during fiscal year 2012 in the form of enrollment freezes, provider rate reductions, and medical service limits, as well as the expiration of ARRA funding. The reduction in education expenses is primarily a result of reductions in operating State aid to community colleges (to offset the districts’ estimated year-over-year operating revenue growth) and reductions to the Department of Education expenses related to the capital outlay revenue limit for school districts with a student count of fewer than 1,100 pupils (which the school districts may partially offset with federal Education Jobs Fund Program monies), as well as the expiration of ARRA funding. Also contributing to the increase in governmental activities net assets during fiscal year 2012 was a reduction of transfers of \$158.0 million primarily resulting from decreases in the Universities’ operating lump sum appropriations from the General Fund.

A comparison of the net cost (income) of services by function for the State’s governmental activities is shown below for fiscal years 2012 and 2011. 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	
	2012	2011	2012	2011
<b>Functions/Programs:</b>				
General government	\$ 840,189	\$ 929,107	\$ 412,626	\$ 391,881
Health and welfare	11,992,408	12,558,119	2,501,647	2,289,217
Inspection and regulation	151,937	149,649	(20,835)	(21,380)
Education	5,331,848	5,467,543	3,879,205	3,706,090
Protection and safety	1,380,999	1,299,205	1,106,410	1,059,449
Transportation	808,967	857,194	(238,715)	(221,736)
Natural resources	213,339	196,210	95,805	90,220
Intergovernmental revenue sharing	2,473,881	2,462,178	2,473,881	2,462,178
Interest on long-term debt	350,483	341,801	350,483	341,801
Total Governmental Activities	<u>\$ 23,544,051</u>	<u>\$ 24,261,006</u>	<u>\$ 10,560,507</u>	<u>\$ 10,097,720</u>

**Expenses and Program Revenues  
Governmental Activities for Fiscal Year 2012  
(in millions of dollars)**



*Business-type Activities* – Net Assets increased by \$194.4 million from fiscal year 2011, or 7%. This increase is primarily due to an increase in net assets for the Universities of \$193.3 million. Non-operating revenues and transfers from the General Fund more than offset the Universities’ operating loss of \$1.0 billion. Although the Universities experienced increased operating revenues due to approved student tuition rate increases and increased enrollment, the revenue increase was offset by a decrease in State appropriation transfers from the General Fund and increases in expenses for instruction, academic support, and research. The net asset decreases in both the Industrial Commission Special Fund and the Unemployment Compensation Fund partially offset the net asset increase discussed above; however, these decreases were offset by the Universities’ allocated share of Internal Service Fund net revenue. The \$32.8 million decrease in net assets of the Industrial Commission Special Fund was largely due to an increase of \$55.2 million in the actuarial accrued insurance loss for medical and compensation over the fiscal year 2011 estimate. This increase is reported in the cost of sales and benefits expense and primarily results in the operating loss of \$54.8 million in fiscal year 2012. In addition, a decrease in investment income of \$23.9 million during fiscal year 2012 also contributed to the decrease in net assets, as compared to the prior fiscal year. The Unemployment Compensation Fund also experienced a decrease in net assets of \$16.8 million in fiscal year 2012; however, this was less than the net asset

decrease of \$207.7 million in the prior fiscal year. The cost of sales and benefits and the intergovernmental revenue decreased \$591.8 million and \$506.6 million, respectively, as compared to the prior fiscal year.

A comparison of the net cost (income) of services by function for the State’s business-type activities is shown below for fiscal years 2011 and 2012. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State’s taxpayers by each of these functions.

Functions/Programs:	Business-type Activities (expressed in thousands)			
	Total Cost of Services		Net Cost (Income) of Services	
	2012	2011	2012	2011
Universities	\$ 3,629,568	\$ 3,533,977	\$ 642,418	\$ 737,451
Unemployment Compensation	1,069,531	1,655,364	105,819	208,185
Industrial Commission				
Special Fund	83,290	27,196	58,315	5,535
Lottery	496,830	439,069	(149,845)	(144,468)
Other	113,347	115,442	(6,909)	(8,243)
Total Business-type Activities	<u>\$ 5,392,566</u>	<u>\$ 5,771,048</u>	<u>\$ 649,798</u>	<u>\$ 798,460</u>

### FINANCIAL ANALYSIS OF THE STATE’S FUNDS

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

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

#### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2012, unassigned fund balance of the General Fund had a deficit of \$437.0 million, while total fund balance closed the year at a deficit of \$79.7 million. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and other financing uses. Unassigned fund balance represents a negative 2% of total expenditures and other financing uses, while total fund balance is less than a negative 1% of the same amount.

The fund balance of the State’s General Fund increased \$623.5 million during the fiscal year. The primary reasons for the increase in fund balance during the fiscal year are increased collections of sales and income taxes, decreases in health and welfare and education expenditures, and a decrease in transfers to the Universities, as discussed in the government-wide financial analysis beginning on **page 24**. As a result of these revenue increases and expenditure reductions, revenues exceeded expenditures by \$1.2 billion, before other financing sources and uses. Other financing sources and uses partially offset this excess by \$551.8 million. Other financing sources and uses consist primarily of transfers to the Universities in support of higher education, offset by legislative transfers from other funds to the General Fund. Overall revenues decreased by \$494.6 million (2%) and expenditures decreased by \$1.0 billion (5%) from fiscal year 2011. Although sales taxes and income taxes increased by a total of \$626.9 million (7%), this increase was more than offset by a decrease of \$1.2 billion (10%) in intergovernmental revenue. The expiration of the federal fiscal stabilization program, which is part of the ARRA, contributed to the decrease in intergovernmental revenue; however, expenditures also decreased as a result of reduced ARRA funding. The reduction in health and welfare expenditures and education expenditures was discussed in the government-wide financial analysis beginning on **page 24**.

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

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance decreased \$21.0 million during fiscal year 2012. Although revenues exceeded expenditures by \$289.6 million, transfers to non-major governmental funds of \$331.7 million to pay debt service offset this excess. In addition, capital outlay expenditures increased by \$116.8 million, as compared to the prior fiscal year.

## **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 \$234.6 million during fiscal year 2012. Endowment investments increased \$224.4 million, at fiscal year-end, primarily due to receipts from land sales of \$137.4 million and a net increase in the fair value of investments of \$104.2 million.

## **Proprietary funds**

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

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Differences between the original budget of \$14.9 billion and the final amended budget of \$16.5 billion resulted in a \$1.6 billion net increase in appropriations for the General Fund, before adjustments. Some of the significant changes in the General Fund appropriations were:

1. \$160.9 million increase due to prior fiscal year obligations that were paid in the current fiscal year per ARS §35-191.
2. \$914.3 million increase to the AHCCCS' original budget is primarily due to supplemental appropriation increases based on projected shortfalls that resulted from delayed approval and certain modification by the Centers for Medicare and Medicaid Services to the Governor's proposed Medicaid Reform plan.
3. \$272.8 million increase to the Universities' original budget is primarily due to payment deferrals from fiscal year 2011, which were budgeted in fiscal year 2012, and for lease purchase capital financing for research infrastructure facilities.
4. \$250.0 million increase to the General Accounting Office's original budget is due to a supplemental appropriation for the Budget Stabilization Fund (BSF). The transfer of monies to the BSF is not included in the General Appropriations Act. The BSF is described more fully in the accompanying Notes to the Financial Statements beginning on **page 69**.

The actual expenditures were less than the final budget by \$737.1 million, after adjustments. Of this amount, \$52.0 million will continue as legislative multiple fiscal year spending authority for fiscal years 2013 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining \$685.1 million represents the unused portion of the State's legislatively authorized annual operating budget.

**Additional budgetary information can be found on pages 135-151 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, 2012 totaled \$24.5 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current

period was 4%, with a 3% 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 \$370.1 million.

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

- i The Universities' additions to capital assets totaled \$630.2 million and included increased investments in buildings for instruction and research, building renewal, and other capital projects.
- i The ADOT started or completed roads and bridges totaling \$1.3 billion during the fiscal year.

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

Capital assets for the governmental and business-type activities as of June 30, 2012 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,886,458	\$ 2,757,806	\$ 202,913	\$ 186,143	\$ 3,089,371	\$ 2,943,949
Buildings	2,106,913	1,899,835	4,622,149	4,196,305	6,729,062	6,096,140
Improvements other than buildings	159,380	157,580	4,816	4,816	164,196	162,396
Equipment	795,147	757,691	1,527,822	1,460,701	2,322,969	2,218,392
Software and intangibles	130,947	129,857	19,328	19,328	150,275	149,185
Collections (non-depreciable)	-	-	19,173	18,657	19,173	18,657
Infrastructure	12,229,571	11,626,519	449,069	399,431	12,678,640	12,025,950
Construction in progress	3,535,660	3,839,780	332,382	404,843	3,868,042	4,244,623
Development in progress	85,586	85,672	3,949	-	89,535	85,672
Less: accumulated depreciation	(1,535,525)	(1,444,910)	(3,101,548)	(2,909,644)	(4,637,073)	(4,354,554)
Total	<u>\$ 20,394,137</u>	<u>\$ 19,809,830</u>	<u>\$ 4,080,053</u>	<u>\$ 3,780,580</u>	<u>\$ 24,474,190</u>	<u>\$ 23,590,410</u>

As provided by GASB Statement No. 34, the State has elected to record its infrastructure assets, that the ADOT is responsible for maintaining, using the modified approach as described in Note 1H. Assets accounted for under the modified approach include 6,751 center lane miles (21,440 travel lane miles) and 4,754 bridges.

The State manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The State's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.69 was achieved for fiscal year 2012.

The State manages its bridges using the Arizona Bridge Information and Storage System. The State determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2012, a CRI of 93.1% was obtained.

In addition to many smaller projects, each of the following major highway construction projects in excess of \$10.0 million were started during fiscal year 2012 (expressed in thousands):

<u>Description</u>	<u>Contract Start Date</u>	<u>Contract Amount</u>	<u>Current Year Expenditures</u>
Capacity additions and major widening on State Route 303L at Interstate 10 interchange in Maricopa County.	9/16/11	\$ 133,910	\$ 43,200
Capacity additions and major widening on State Route 303L Peoria Avenue to Mountain View Road in Maricopa County.	7/15/11	128,777	52,692
Capacity additions and reconstruction on Interstate 10, Ruthrauff Road to Prince Road in Pima County.	7/15/11	76,439	21,656
New facilities – construction of new roads on State Route 24 from State Route 202L to Ellsworth Road in Maricopa County (Phase I).	2/17/12	71,415	5,117
Capacity additions and major widening on State Route 303L Glendale Avenue to Peoria Avenue in Maricopa County.	4/20/12	65,105	1,532
Construct interim roadway on Northern Avenue from US Route 60 to State Route 303L in Maricopa County.	7/20/11	57,618	715
System preservation and relocations on Interstate 17 at the Cordes Junction traffic interchange in Yavapai County.	7/15/11	50,928	28,537
Capacity additions and major widening on State Route 303L Thomas Road to Camelback Road in Maricopa County.	4/13/12	31,450	-
Capacity additions and major widening on La Canada Drive, River Road to Ina Road in Pima County.	9/28/11	18,210	-
Capacity additions and major widening on State Route 89 Fain Road in Yavapai County.	12/6/11	16,268	6,234
System preservation – bridge replacement on State Route 70, the Gila River Bridge at Bylas #2945 in Graham County.	11/18/11	12,685	7,222
System preservation-restoration/rehab/resurface in Interstate 15 Virgin River to Utah State Line in Mohave County.	4/20/12	11,556	-

Furthermore, the following major highway construction projects had expenditures in excess of \$15.0 million in fiscal year 2012. These project expenditures include payments made to construction contractors (as shown above) as well as utility, design, right-of-way, and landscaping costs (expressed in thousands):

<u>Location Description</u>	<u>Project Expenditures</u>
State Route 303L from Peoria Avenue to Mountain View Boulevard in Maricopa County.	\$ 55,312
State Route 303L Interstate 10/State Route 303L Traffic Interchange in Maricopa County.	52,613
State Route 101 Interstate 10 – Tatum Boulevard in Maricopa County.	50,329
State Route 202L, Santan Freeway, Interstate 10 to Gilbert Road in Maricopa County.	33,105
State Route 303L Camelback Road to Olive Avenue in Maricopa County.	32,107
Interstate 17 Cordes Junction Traffic Interchange in Yavapai County.	32,624
State Route 202L, Red Mountain Freeway, Higley Road to US Highway 60 in Maricopa County.	26,035
Interstate 10 Ruthrauff Road to Prince Road in Pima County.	25,861
Interstate 10 Val Vista Road to Early Road in Pinal County.	24,917
Interstate 10 Salt River to Baseline Road in Maricopa County.	21,664
Interstate 10 Interstate 8 to State Route 87 in Pinal County.	20,401
Interstate 10 and State Route 90 Traffic Interchange in Cochise County.	16,620

**More detailed information regarding capital assets is on pages 95 and 96.**

**Long-term debt:**

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

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

- i The State issued revenue bonds totaling \$259.5 million to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona and the costs of issuing the bonds.
- i The State issued revenue bonds and grant anticipation notes totaling \$499.7 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- i The Universities issued revenue bonds for \$364.2 million to fund the acquisition, construction, or renovation of capital facilities and infrastructure, and to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- i The Universities issued certificates of participation for \$158.1 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.

State of Arizona-Primary Government  
Outstanding Major Long-Term Debt as of June 30, 2012  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue bonds	\$ 3,593,420	\$ 3,529,115	\$ 1,942,755	\$ 1,742,125	\$ 5,536,175	\$ 5,271,240
Grant anticipation notes	335,230	392,495	-	-	335,230	392,495
Certificates of participation	2,495,825	2,611,255	756,980	812,706	3,252,805	3,423,961
Capital leases	391,184	400,540	163,637	167,841	554,821	568,381
Total	<u>\$ 6,815,659</u>	<u>\$ 6,933,405</u>	<u>\$ 2,863,372</u>	<u>\$ 2,722,672</u>	<u>\$ 9,679,031</u>	<u>\$ 9,656,077</u>

**More detailed information regarding long-term debt begins on page 101.**

### ECONOMIC CONDITION AND OUTLOOK

The Office of Employment and Population Statistics within the Arizona Department of Administration is forecasting a gradual increase in nonfarm employment in the State for the calendar year 2012-2013 projections time period. The State is projected to gain 112,200 nonfarm jobs, representing a growth rate of 4.7% over the two projected years of 2012 and 2013. An over-the-year gain of 51,200 jobs is projected in 2012 and 60,900 jobs in 2013. The rate of growth projected for nonfarm employment is 2.1% in 2012 and 2.5% in 2013.

Additionally, home prices have stabilized in the State and have begun to rise in the Phoenix metropolitan area. Residential real estate market in the State and Phoenix metropolitan area is showing an improvement as measured by various indicators. These include rising levels of building permits.

The State's fiscal year 2013 General Fund budget reflects projected growth in base revenues of 5.1%. The net ongoing revenues are projected to increase from \$8.7 billion in fiscal year 2012 to \$8.8 billion in fiscal year 2013. General Fund spending is projected to increase from \$8.5 billion in fiscal year 2012 to \$8.6 billion in fiscal year 2013. The budget includes spending for the replacement of the State's financial accounting system, which is scheduled to be implemented beginning in fiscal year 2016. The General Fund fiscal year 2013 ending balance is projected to be \$249 million.

Legislative discussions on the fiscal year 2013 General Fund budget also included analyzing the impact of budget decisions on estimated fiscal year 2014 and 2015 spending.

The fiscal year 2014 General Fund budget is estimated to spend \$8.8 billion. The spending includes statutory formula caseload growth plus the federal health care costs associated with the Federal Affordable Care Act (FACA). Effective January 1, 2014, FACA will expand the number of persons eligible for Medicaid health care coverage (including childless adults currently frozen from coverage) while partially offsetting the costs with higher federal matching rates. The net ongoing revenues for fiscal year 2014 are estimated to be \$8.4 billion. The revenues are lower than in fiscal

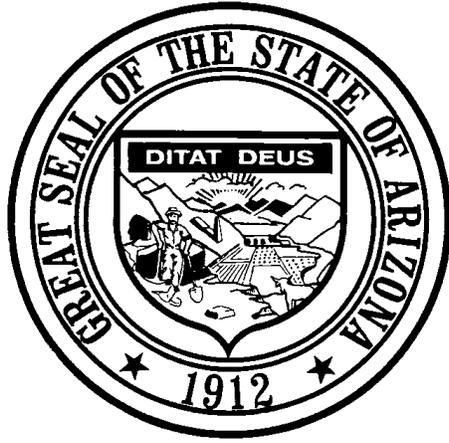
year 2013 due to the expiration of the temporary 1-cent sales tax in May 2013. The fiscal year 2014 General Fund ending balance is projected with a shortfall of \$132 million. The Arizona State Legislature tentatively allocated \$132 million of the \$450 million from the BSF for planning purposes to balance the fiscal year 2014 budget.

The fiscal year 2015 General Fund budget is estimated to spend \$9.2 billion. The spending includes statutory formula caseload growth plus a full year of the federal health care costs associated with the FACA. The net ongoing revenues for fiscal year 2015 are estimated to be \$8.7 billion. This reflects base revenue growth of 5%, reduced by \$155 million in enacted tax reductions. The fiscal year 2015 General Fund ending balance is projected with a shortfall of \$486 million. If the \$132 million of the original \$450 million of BSF deposits is used to balance the fiscal year 2014 General Fund budget, there would be a total of \$318 million remaining in the BSF to help address the projected \$486 million shortfall.

### **CONTACTING THE STATE COMPTROLLER'S OFFICE**

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

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information regarding the component units begins on **page 69**.



# BASIC FINANCIAL STATEMENTS

**BASIC FINANCIAL STATEMENTS**

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STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2012  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
			PRIMARY GOVERNMENT	
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 2,857	\$ 307,428	\$ 310,285	\$ 87,319
Cash with U.S. Treasury	-	4,114	4,114	-
Cash and pooled investments with State Treasurer	2,318,818	84,183	2,403,001	254,902
Restricted cash and pooled investments with State Treasurer	446,938	76,350	523,288	-
Cash held by trustee	-	-	-	8,286
Collateral investment pool	537,560	44,336	581,896	7,459
Short-term investments	-	234,568	234,568	98,330
Restricted investments held by trustee	-	-	-	17,667
Receivables, net of allowances:				
Taxes	533,916	93,782	627,698	5,524
Interest	206,816	3,418	210,234	10,485
Loans and notes	148,543	4,971	153,514	272
Patient accounts receivable	-	-	-	125,548
Other	171,181	171,391	342,572	100,230
Internal balances	(223,432)	223,432	-	-
Due from U.S. Government	611,799	88,358	700,157	-
Due from local governments	125,213	-	125,213	-
Due from others	133,768	-	133,768	-
Due from primary government	-	-	-	2,716
Inventories, at cost	19,032	19,405	38,437	17,416
Other current assets	24,115	16,436	40,551	1,176
Total Current Assets	<u>5,057,124</u>	<u>1,372,172</u>	<u>6,429,296</u>	<u>737,330</u>
Noncurrent Assets:				
Restricted assets:				
Cash	109	10,431	10,540	-
Cash and pooled investments with State Treasurer	1,289,308	-	1,289,308	10,465
Cash held by trustee	52,878	269,364	322,242	21,300
Investments	2,608	-	2,608	80,788
Investments held by trustee	-	122,437	122,437	33,122
Receivables, net of allowances:				
Loans and notes	197,914	31,042	228,956	1,133,178
Other	-	12,267	12,267	7,038
Securities held in escheat	47,586	-	47,586	-
Investments	-	752,534	752,534	115,773
Endowment investments	3,444,512	305,682	3,750,194	-
Deferred outflow - interest rate swap	-	22,880	22,880	-
Other noncurrent assets	14,851	29,791	44,642	32,002
Capital assets:				
Infrastructure, land, and other non-depreciable	18,715,141	558,417	19,273,558	44,298
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,678,996	3,521,636	5,200,632	377,139
Total Noncurrent Assets	<u>25,443,903</u>	<u>5,636,481</u>	<u>31,080,384</u>	<u>1,855,103</u>
Total Assets	<u>30,501,027</u>	<u>7,008,653</u>	<u>37,509,680</u>	<u>2,592,433</u>

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

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2012  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 574,361	\$ 123,403	\$ 697,764	\$ 78,555
Payable for securities purchased	-	1,308	1,308	-
Accrued liabilities	833,868	53,451	887,319	98,013
Obligations under securities loan agreements	537,560	44,336	581,896	7,459
Tax refunds payable	1,118	-	1,118	-
Due to U.S. Government	5,371	249,273	254,644	-
Due to local governments	1,195,608	-	1,195,608	-
Due to others	285,264	79,886	365,150	-
Due to component units	-	2,716	2,716	-
Unearned deferred revenue	89,645	137,890	227,535	-
Current portion of accrued insurance losses	53,287	26,272	79,559	16,382
Current portion of long-term debt	447,574	103,183	550,757	86,766
Current portion of other long-term liabilities	165,193	16,823	182,016	19,521
Total Current Liabilities	<u>4,188,849</u>	<u>838,541</u>	<u>5,027,390</u>	<u>306,696</u>
Noncurrent Liabilities:				
Unearned deferred revenue	76,363	5,370	81,733	2,741
Contracts payable	-	879	879	-
Accrued insurance losses	311,476	442,661	754,137	14,961
Funds held for others	-	17,607	17,607	-
Long-term debt	6,819,580	2,835,831	9,655,411	1,342,165
Derivative instrument - interest rate swap	-	22,880	22,880	-
Other long-term liabilities	165,596	55,549	221,145	11,599
Total Noncurrent Liabilities	<u>7,373,015</u>	<u>3,380,777</u>	<u>10,753,792</u>	<u>1,371,466</u>
Total Liabilities	<u>11,561,864</u>	<u>4,219,318</u>	<u>15,781,182</u>	<u>1,678,162</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	16,940,512	1,483,416	18,423,928	96,100
Restricted for:				
General government	37,409	-	37,409	-
Health and welfare	125,779	-	125,779	-
Inspection and regulation	4,614	-	4,614	-
Education	508,085	-	508,085	-
Protection and safety	20,237	-	20,237	-
Natural resources	10,563	-	10,563	-
Capital projects	666,162	186	666,348	-
Debt service	6,738	12,596	19,334	21,948
Permanent funds and University funds:				
Expendable	166,024	220,354	386,378	-
Nonexpendable	3,804,355	186,426	3,990,781	-
Loans and other financial assistance:				
Expendable	-	76,882	76,882	435,182
Other purposes	-	-	-	45,537
Unrestricted (deficit)	<u>(3,351,315)</u>	<u>809,475</u>	<u>(2,541,840)</u>	<u>315,504</u>
Total Net Assets	<u>\$ 18,939,163</u>	<u>\$ 2,789,335</u>	<u>\$ 21,728,498</u>	<u>\$ 914,271</u>

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, 2012  
(Expressed in Thousands)

**ASSETS**

Cash and cash equivalent investments	\$	72,550
Receivables:		
Pledges receivable		118,519
Other receivables		18,534
Total receivables		<u>137,053</u>
Investments:		
Investments in securities		1,322,442
Other investments		52,272
Total investments		<u>1,374,714</u>
Net direct financing leases		119,483
Property and equipment, net of accumulated depreciation		371,729
Licenses		3,500
Other assets		<u>47,908</u>
Total Assets		<u>2,126,937</u>

**LIABILITIES**

Accounts payable and accrued liabilities		37,534
Liability under endowment trust agreements		290,923
Long-term debt		601,815
Deferred revenue		29,781
Other liabilities		<u>38,564</u>
Total Liabilities		<u>998,617</u>

**NET ASSETS**

Permanently restricted		772,273
Temporarily restricted		356,488
Unrestricted (deficit)		<u>(441)</u>
Total Net Assets	\$	<u>1,128,320</u>

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

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STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General government	\$ 840,189	\$ 189,175	\$ 238,388	\$ -
Health and welfare	11,992,408	135,345	9,355,416	-
Inspection and regulation	151,937	150,557	22,215	-
Education	5,331,848	71,414	1,381,229	-
Protection and safety	1,380,999	123,450	149,959	1,180
Transportation	808,967	108,877	161,992	776,813
Natural resources	213,339	68,684	48,271	579
Intergovernmental revenue sharing	2,473,881	-	-	-
Interest on long-term debt	350,483	-	-	-
Total Governmental Activities	<u>23,544,051</u>	<u>847,502</u>	<u>11,357,470</u>	<u>778,572</u>
Business-type Activities:				
Universities	3,629,568	1,752,509	1,181,070	53,571
Unemployment Compensation	1,069,531	439,074	524,638	-
Industrial Commission Special Fund	83,290	24,975	-	-
Lottery	496,830	646,675	-	-
Other	113,347	120,191	65	-
Total Business-type Activities	<u>5,392,566</u>	<u>2,983,424</u>	<u>1,705,773</u>	<u>53,571</u>
Total Primary Government	<u>\$ 28,936,617</u>	<u>\$ 3,830,926</u>	<u>\$ 13,063,243</u>	<u>\$ 832,143</u>
<b>COMPONENT UNITS:</b>				
Water Infrastructure Finance Authority	\$ 44,562	\$ 38,014	\$ 23,099	\$ -
University of Arizona Health Network	1,166,960	1,160,468	-	2,345
Other Component Units	68,708	38,788	7,280	-
Total Component Units	<u>\$ 1,280,230</u>	<u>\$ 1,237,270</u>	<u>\$ 30,379</u>	<u>\$ 2,345</u>

General Revenues:

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

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (412,626)		\$ (412,626)	
(2,501,647)		(2,501,647)	
20,835		20,835	
(3,879,205)		(3,879,205)	
(1,106,410)		(1,106,410)	
238,715		238,715	
(95,805)		(95,805)	
(2,473,881)		(2,473,881)	
(350,483)		(350,483)	
(10,560,507)		(10,560,507)	
	\$ (642,418)	(642,418)	
	(105,819)	(105,819)	
	(58,315)	(58,315)	
	149,845	149,845	
	6,909	6,909	
	(649,798)	(649,798)	
(10,560,507)	(649,798)	(11,210,305)	
			\$ 16,551
			(4,147)
			(22,640)
			(10,236)
6,296,151	55,309	6,351,460	12,171
3,706,698	-	3,706,698	-
317,369	-	317,369	-
30,656	-	30,656	-
1,581,909	-	1,581,909	-
522,510	-	522,510	15,991
79,190	49,501	128,691	9,208
40,678	3,468	44,146	239
125,479	-	125,479	-
-	-	-	78,385
167,604	155,757	323,361	1
-	3,270	3,270	-
(576,846)	576,846	-	-
12,291,398	844,151	13,135,549	115,995
1,730,891	194,353	1,925,244	105,759
17,208,272	2,594,982	19,803,254	808,512
\$ 18,939,163	\$ 2,789,335	\$ 21,728,498	\$ 914,271

STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUES</b>				
Contributions	\$ 13,943	\$ 143,570	\$ 22,137	\$ 179,650
Rental revenue	49,963	-	-	49,963
Sales and services	37,520	131	-	37,651
Net investment income (loss)	(6,373)	(817)	3,923	(3,267)
Licensing revenue	1,281	-	-	1,281
Other revenues	35,162	3,521	72	38,755
Net assets released from restrictions	162,431	(144,423)	(18,008)	-
<b>Total Revenues</b>	<b>293,927</b>	<b>1,982</b>	<b>8,124</b>	<b>304,033</b>
<b>EXPENSES</b>				
Program services:				
Payments to Universities	143,983	-	-	143,983
Leasing related expenses	10,445	-	-	10,445
Payments on behalf of Universities	16,410	-	-	16,410
Other program services	6,489	-	-	6,489
Management and general expenses	73,718	-	-	73,718
Fundraising expenses	9,189	-	-	9,189
Interest	27,357	-	-	27,357
Depreciation and amortization	23,272	-	-	23,272
Other expenses	13,490	21,178	41	34,709
<b>Total Expenses</b>	<b>324,353</b>	<b>21,178</b>	<b>41</b>	<b>345,572</b>
Increase (decrease) in Net Assets, before extraordinary items	(30,426)	(19,196)	8,083	(41,539)
Extraordinary items (Primarily equity transfers)	1,890	-	-	1,890
Increase (decrease) in Net Assets, after extraordinary items	(28,536)	(19,196)	8,083	(39,649)
Net Assets - Beginning	27,951	375,344	764,674	1,167,969
Transfers	255	344	(599)	-
Reclassification of funds with deficiencies	(111)	(4)	115	-
<b>Net Assets - Ending</b>	<b>\$ (441)</b>	<b>\$ 356,488</b>	<b>\$ 772,273</b>	<b>\$ 1,128,320</b>

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

STATE OF ARIZONA  
**BALANCE SHEET**  
GOVERNMENTAL FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				
	GENERAL	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
	FUND	SAFETY FUND	FUND	FUNDS	TOTAL
<b>ASSETS</b>					
Cash	\$ 1,892	\$ -	\$ 28	\$ 937	\$ 2,857
Cash and pooled investments with State Treasurer	1,195,776	33,720	78,253	612,570	1,920,319
Collateral investment pool	57,629	4,962	453,946	21,023	537,560
Receivables, net of allowances:					
Taxes	402,017	64,439	-	67,460	533,916
Interest	101	-	206,714	1	206,816
Loans and notes	-	5,872	340,585	-	346,457
Other	107,271	16,429	14,099	25,392	163,191
Due from U.S. Government	446,039	143,309	-	14,335	603,683
Due from local governments	125,213	-	-	-	125,213
Due from other Funds	42,460	3,829	325	26,472	73,086
Inventories, at cost	7,237	8,235	-	12	15,484
Restricted assets:					
Cash	109	-	-	-	109
Cash and pooled investments with State Treasurer	49,612	764,107	-	922,527	1,736,246
Cash held by trustee	42,822	-	-	10,056	52,878
Investments	2,608	-	-	-	2,608
Securities held in escheat	47,586	-	-	-	47,586
Endowment investments	-	-	3,444,512	-	3,444,512
Other	128	18,169	-	-	18,297
<b>Total Assets</b>	<b>\$ 2,528,500</b>	<b>\$ 1,063,071</b>	<b>\$ 4,538,462</b>	<b>\$ 1,700,785</b>	<b>\$ 9,830,818</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and other current liabilities	\$ 229,438	\$ 162,488	\$ 19,519	\$ 62,736	\$ 474,181
Accrued liabilities	477,383	4,922	2	43,598	525,905
Obligations under securities loan agreements	57,629	4,962	453,946	21,023	537,560
Tax refunds payable	1,118	-	-	-	1,118
Due to U.S. Government	5,371	-	-	-	5,371
Due to local governments	984,622	106,613	-	104,373	1,195,608
Due to others	265,418	-	1	19,845	285,264
Due to other Funds	213,694	9,037	3,036	30,072	255,839
Unavailable deferred revenue	299,638	5,872	540,470	739	846,719
Unearned deferred revenue	73,887	-	91,579	510	165,976
<b>Total Liabilities</b>	<b>2,608,198</b>	<b>293,894</b>	<b>1,108,553</b>	<b>282,896</b>	<b>4,293,541</b>
Fund Balances:					
Nonspendable	891	8,235	3,463,770	-	3,472,896
Restricted	246,977	650,424	-	1,014,322	1,911,723
Committed	109,469	110,518	-	403,567	623,554
Unassigned	(437,035)	-	(33,861)	-	(470,896)
<b>Total Fund Balances</b>	<b>(79,698)</b>	<b>769,177</b>	<b>3,429,909</b>	<b>1,417,889</b>	<b>5,537,277</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,528,500</b>	<b>\$ 1,063,071</b>	<b>\$ 4,538,462</b>	<b>\$ 1,700,785</b>	<b>\$ 9,830,818</b>

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

STATE OF ARIZONA  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 JUNE 30, 2012  
 (Expressed in Thousands)

<b>Total fund balances - governmental funds</b>	\$	5,537,277
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 governmental funds.		20,331,376
Certain receivables related to reimbursements are not available at year end and, therefore, are not reported in the governmental funds.		134,727
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		846,719
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.		(126,671)
The allocation of the internal service fund accumulated net gain results in an amount due to business-type activities, which is not reported in the governmental funds.		(43,048)
Deferred issue costs are reported as current expenditures in the governmental funds. However, deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets.		14,851
Long-term debt is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. These amounts consist of:		
Revenue bonds	(3,593,420)	
Grant anticipation notes	(335,230)	
Certificates of participation	(2,495,825)	
Capital leases	(391,184)	
Installment purchase contracts	(177)	
Notes payable	(55,666)	
Premium on debt	(396,465)	
Deferred amounts on refundings	<u>813</u>	(7,267,154)
Accrued liabilities for AHCCCS programmatic costs and reimbursements are not due and payable from current financial resources and, therefore, are not reported in the governmental funds.		(270,370)
Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds.		(36,926)
Other long-term liabilities are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. Those liabilities consist of:		
Compensated absences	(151,036)	
Pollution remediation obligations	<u>(30,582)</u>	<u>(181,618)</u>
<b>Net assets of governmental activities</b>	\$	<u><u>18,939,163</u></u>

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, 2012  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				
	GENERAL	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
	FUND	FUND	FUND	FUNDS	
<b>REVENUES</b>					
Taxes:					
Sales	\$ 5,612,685	\$ 216,281	\$ -	\$ 483,904	\$ 6,312,870
Income	3,715,007	-	-	75	3,715,082
Tobacco	63,838	-	-	253,531	317,369
Property	17,921	10,735	-	2,000	30,656
Motor vehicle and fuel	106,404	1,314,275	-	161,230	1,581,909
Other	425,759	-	-	96,751	522,510
Intergovernmental	10,830,480	937,982	-	75,446	11,843,908
Licenses, fees, and permits	84,140	94,575	3,973	294,656	477,344
Earnings on investments	17,820	6,389	111,123	54,723	190,055
Sales and charges for services	104,527	821	63,717	19,741	188,806
Fines, forfeitures, and penalties	30,856	-	-	137,384	168,240
Gaming	6,056	-	-	79,479	85,535
Tobacco settlement	101,067	-	-	-	101,067
Proceeds from sale of trust land	-	-	137,405	-	137,405
Other	158,067	13,525	5,807	22,056	199,455
Total Revenues	<u>21,274,627</u>	<u>2,594,583</u>	<u>322,025</u>	<u>1,680,976</u>	<u>25,872,211</u>
<b>EXPENDITURES</b>					
Current:					
General government	730,123	-	-	108,653	838,776
Health and welfare	11,774,277	-	5,366	249,887	12,029,530
Inspection and regulation	43,987	-	-	109,960	153,947
Education	4,658,966	-	47,180	625,995	5,332,141
Protection and safety	1,111,843	-	4,471	234,937	1,351,251
Transportation	51	724,205	-	21,050	745,306
Natural resources	88,636	-	1,065	112,976	202,677
Intergovernmental revenue sharing	1,468,757	1,004,768	-	10	2,473,535
Debt service:					
Principal	98,590	15,903	-	271,534	386,027
Interest and other fiscal charges	75,265	214	-	269,424	344,903
Capital outlay	48,826	559,912	73	160,905	769,716
Total Expenditures	<u>20,099,321</u>	<u>2,305,002</u>	<u>58,155</u>	<u>2,165,331</u>	<u>24,627,809</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,175,306</u>	<u>289,581</u>	<u>263,870</u>	<u>(484,355)</u>	<u>1,244,402</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	286,107	1,760	-	533,205	821,072
Transfers out	(838,161)	(331,701)	(29,267)	(124,649)	(1,323,778)
Proceeds from sale of capital assets	-	1,815	-	-	1,815
Capital lease and installment purchase contracts	211	7,955	-	-	8,166
Proceeds from notes and loans	-	9,541	-	-	9,541
Bonds issued	-	-	-	259,460	259,460
Refunding bonds issued	-	-	-	455,900	455,900
Refunding GANs issued	-	-	-	43,825	43,825
Payment to refunded bond escrow agent	-	-	-	(560,228)	(560,228)
Premium on debt issued	-	-	-	90,753	90,753
Total Other Financing Sources (Uses)	<u>(551,843)</u>	<u>(310,630)</u>	<u>(29,267)</u>	<u>698,266</u>	<u>(193,474)</u>
Net Change in Fund Balances	<u>623,463</u>	<u>(21,049)</u>	<u>234,603</u>	<u>213,911</u>	<u>1,050,928</u>
Fund Balances - Beginning	(703,161)	790,226	3,195,306	1,203,978	4,486,349
Fund Balances - Ending	<u>\$ (79,698)</u>	<u>\$ 769,177</u>	<u>\$ 3,429,909</u>	<u>\$ 1,417,889</u>	<u>\$ 5,537,277</u>

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

STATE OF ARIZONA  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Thousands)

**Net change in fund balances - total governmental funds** \$ 1,050,928

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

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

Capital outlay	769,716	
Infrastructure adjustment	(67,693)	
Depreciation expense	<u>(121,542)</u>	580,481

The net revenue of the internal service funds is included with governmental activities in the Statement of Activities. 38,419

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

Sales taxes	(16,719)	
Income taxes	(8,384)	
Operating grants	(21,153)	
Right-of-way lease revenue	(369)	
Tobacco tax	(4,106)	
Other revenue	<u>99</u>	(50,632)

Trust land sales are financed with long-term mortgages. In the Statement of Activities, the gain on sale of trust land is reported, whereas in the governmental funds, the proceeds from the collection of mortgage payments are reported. In fiscal year 2012, mortgage payments exceeded gains resulting from current year land sales. In addition, accrued interest on land sales' contracts are reported as revenues in the Statement of Activities but are not reported as revenues in the governmental funds.

Excess of mortgage receipts over gain on sale of land	(11,926)	
Accrued interest on land sales' contracts	<u>31,410</u>	19,484

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

AHCCCS accrued programmatic costs	32,132	
Compensated absences	(3,585)	
Pollution remediation obligations	(9,021)	
Interest on long-term obligations	3,850	
Other expenses	<u>(345)</u>	23,031

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

STATE OF ARIZONA  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Thousands)

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

Bonds issued	(259,460)	
Refunding bonds issued	(455,900)	
Refunding grant anticipation notes issued	(43,825)	
Proceeds from notes and loans	(9,541)	
Bond issuance costs	2,936	
Premium on debt issued	<u>(90,753)</u>	(856,543)

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

Debt service principal	386,027	
Payment to refunded bond escrow agent	512,904	
Debt premium/discount amortization	36,891	
Amortization of bond issuance costs	(1,525)	
Amortization of deferred amount	<u>(408)</u>	933,889

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.

(8,166)

**Change in net assets of governmental activities**

\$ 1,730,891

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

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 PROPRIETARY FUNDS  
 JUNE 30, 2012  
 (Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 239,763	\$ -	\$ 64,800	\$ -	\$ 2,865
Cash with U.S. Treasury	-	4,114	-	-	-
Cash and pooled investments with State Treasurer	1,747	-	4,606	56,303	21,527
Restricted cash and pooled investments with State Treasurer	-	-	-	-	76,350
Collateral investment pool	-	-	44,336	-	-
Short-term investments	234,568	-	-	-	-
Receivables, net of allowances:					
Taxes	-	89,019	4,763	-	-
Interest	691	-	2,724	-	3
Loans and notes	4,441	-	-	-	530
Other	106,349	48,992	1,406	5,389	9,255
Due from U.S. Government	88,220	-	-	-	138
Due from other Funds	210,299	-	-	-	171
Inventories, at cost	9,891	-	-	3,126	6,388
Other current assets	15,775	-	-	-	661
Total Current Assets	<u>911,744</u>	<u>142,125</u>	<u>122,635</u>	<u>64,818</u>	<u>117,888</u>
Noncurrent Assets:					
Restricted assets:					
Cash	10,431	-	-	-	-
Cash held by trustee	269,364	-	-	-	-
Investments held by trustee	122,437	-	-	-	-
Receivables, net of allowances:					
Loans and notes	31,042	-	-	-	-
Other	12,267	-	-	-	-
Investments	417,766	-	334,768	-	-
Endowment investments	305,682	-	-	-	-
Deferred outflow - interest rate swap	22,880	-	-	-	-
Other noncurrent assets	20,434	-	-	9,357	-
Capital assets:					
Land and other non-depreciable	552,381	-	2,997	998	2,041
Buildings, equipment, and other depreciable, net of accumulated depreciation	3,484,852	-	12,557	2,141	22,086
Total Noncurrent Assets	<u>5,249,536</u>	<u>-</u>	<u>350,322</u>	<u>12,496</u>	<u>24,127</u>
Total Assets	<u>6,161,280</u>	<u>142,125</u>	<u>472,957</u>	<u>77,314</u>	<u>142,015</u>

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

		GOVERNMENTAL	
<u>TOTAL</u>		<u>ACTIVITIES -</u>	
<u>ENTERPRISE</u>		<u>INTERNAL</u>	
<u>FUNDS</u>		<u>SERVICE FUNDS</u>	
\$	307,428	\$	-
	4,114		-
	84,183		398,499
	76,350		-
	44,336		-
	234,568		-
	93,782		-
	3,418		-
	4,971		-
	171,391		7,990
	88,358		7,157
	210,470		2,752
	19,405		3,548
	16,436		5,818
	<u>1,359,210</u>		<u>425,764</u>
	10,431		-
	269,364		-
	122,437		-
	31,042		-
	12,267		-
	752,534		-
	305,682		-
	22,880		-
	29,791		-
	558,417		109
	<u>3,521,636</u>		<u>62,652</u>
	<u>5,636,481</u>		<u>62,761</u>
	<u>6,995,691</u>		<u>488,525</u>

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 PROPRIETARY FUNDS  
 JUNE 30, 2012  
 (Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	INDUSTRIAL				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	\$ 114,016	\$ 4	\$ 3,500	\$ 4,148	\$ 1,735
Payable for securities purchased	-	-	1,308	-	-
Accrued liabilities	28,091	22,073	-	124	3,163
Obligations under securities loan agreements	-	-	44,336	-	-
Due to U.S. Government	-	249,273	-	-	-
Due to others	21,689	26,980	-	31,217	-
Due to component units	-	-	-	2,716	-
Due to other Funds	-	175	1,711	28,199	1
Unearned deferred revenue	131,959	-	103	-	5,828
Current portion of accrued insurance losses	-	-	26,272	-	-
Current portion of long-term debt	103,164	-	-	-	19
Current portion of other long-term liabilities	15,548	-	-	292	983
Total Current Liabilities	<u>414,467</u>	<u>298,505</u>	<u>77,230</u>	<u>66,696</u>	<u>11,729</u>
Noncurrent Liabilities:					
Unearned deferred revenue	5,370	-	-	-	-
Contracts payable	-	-	-	-	879
Accrued insurance losses	-	-	442,661	-	-
Funds held for others	17,607	-	-	-	-
Long-term debt	2,835,831	-	-	-	-
Derivative instrument - interest rate swap	22,880	-	-	-	-
Other long-term liabilities	55,471	-	-	-	78
Total Noncurrent Liabilities	<u>2,937,159</u>	<u>-</u>	<u>442,661</u>	<u>-</u>	<u>957</u>
Total Liabilities	<u>3,351,626</u>	<u>298,505</u>	<u>519,891</u>	<u>66,696</u>	<u>12,686</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,440,615	-	15,554	3,139	24,108
Restricted for:					
Capital projects	186	-	-	-	-
Debt service	12,596	-	-	-	-
Universities fund:					
Expendable	220,354	-	-	-	-
Nonexpendable	186,426	-	-	-	-
Loans and other financial assistance:					
Expendable	-	-	-	-	76,882
Unrestricted (deficit)	949,477	(156,380)	(62,488)	7,479	28,339
Total Net Assets	<u>\$ 2,809,654</u>	<u>\$ (156,380)</u>	<u>\$ (46,934)</u>	<u>\$ 10,618</u>	<u>\$ 129,329</u>

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.

		GOVERNMENTAL	
TOTAL		ACTIVITIES -	
ENTERPRISE		INTERNAL	
FUNDS		SERVICE FUNDS	
\$	123,403	\$	100,179
	1,308		-
	53,451		668
	44,336		-
	249,273		-
	79,886		-
	2,716		-
	30,086		383
	137,890		32
	26,272		53,287
	103,183		-
	16,823		11,779
	<u>868,627</u>		<u>166,328</u>
	5,370		-
	879		-
	442,661		311,476
	17,607		-
	2,835,831		-
	22,880		-
	55,549		137,392
	<u>3,380,777</u>		<u>448,868</u>
	<u>4,249,404</u>		<u>615,196</u>
	1,483,416		62,761
	186		-
	12,596		-
	220,354		-
	186,426		-
	76,882		-
	766,427		(189,432)
\$	<u>2,746,287</u>	\$	<u>(126,671)</u>
	43,048		
\$	<u>2,789,335</u>		

STATE OF ARIZONA  
**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>OPERATING REVENUES</b>					
Sales and charges for services:					
Student tuition and fees, net of scholarship allowances of \$435,408	\$ 1,325,589	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprises, net of scholarship allowances of \$19,000	322,333	-	-	-	-
Educational department	104,587	-	-	-	-
Lottery	-	-	-	646,675	-
Other	-	-	-	-	120,189
Unemployment assessments	-	437,053	-	-	-
Workers' compensation assessments	-	-	21,863	-	-
Intergovernmental	614,803	524,638	-	-	65
Nongovernmental grants and contracts	116,656	-	-	-	-
Earnings on investments	-	-	-	-	2
Fines, forfeitures, and penalties	-	2,021	-	-	-
Settlement income	-	-	3,112	-	-
Other	37,042	90,926	-	173	2,336
Total Operating Revenues	<u>2,521,010</u>	<u>1,054,638</u>	<u>24,975</u>	<u>646,848</u>	<u>122,592</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	964,616	1,058,179	78,366	459,259	69,646
Scholarships and fellowships	200,069	-	-	-	-
Personal services	2,147,310	-	-	5,881	26,671
Contractual services	-	-	-	15,214	8,478
Depreciation and amortization	232,827	-	1,371	270	1,717
Insurance	-	-	-	40	510
Other	-	-	-	1,466	6,269
Total Operating Expenses	<u>3,544,822</u>	<u>1,058,179</u>	<u>79,737</u>	<u>482,130</u>	<u>113,291</u>
Operating Income (Loss)	<u>(1,023,812)</u>	<u>(3,541)</u>	<u>(54,762)</u>	<u>164,718</u>	<u>9,301</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Share of State sales tax revenues	55,309	-	-	-	-
Intergovernmental	286,940	-	-	-	-
Gifts and donations	177,996	-	-	-	-
Gain (loss) on sale of capital assets	(144)	-	-	-	(3)
Investment income	30,806	-	17,685	102	908
Endowment earnings on investments	(15,325)	-	-	-	-
Other non-operating revenue	23,453	-	1,788	-	186
Distributions	-	-	-	(14,700)	-
Interest expense	(115,344)	(11,352)	-	-	(9)
Other non-operating expense	(8,358)	-	(3,553)	-	(47)
Total Non-Operating Revenues (Expenses)	<u>435,333</u>	<u>(11,352)</u>	<u>15,920</u>	<u>(14,598)</u>	<u>1,035</u>
Income (Loss) Before Contributions, and Transfers	<u>(588,479)</u>	<u>(14,893)</u>	<u>(38,842)</u>	<u>150,120</u>	<u>10,336</u>
Capital grants and contributions	53,571	-	-	-	3,468
Contributions to permanent endowments	3,270	-	-	-	-
Transfers in	724,892	-	6,000	-	16
Transfers out	-	(1,901)	-	(150,018)	(2,143)
Change in Net Assets	<u>193,254</u>	<u>(16,794)</u>	<u>(32,842)</u>	<u>102</u>	<u>11,677</u>
Total Net Assets - Beginning	<u>2,616,400</u>	<u>(139,586)</u>	<u>(14,092)</u>	<u>10,516</u>	<u>117,652</u>
Total Net Assets - Ending	<u>\$ 2,809,654</u>	<u>\$ (156,380)</u>	<u>\$ (46,934)</u>	<u>\$ 10,618</u>	<u>\$ 129,329</u>

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
------------------------------	---

\$ 1,325,589	\$ -
322,333	-
104,587	-
646,675	-
120,189	1,009,813
437,053	-
21,863	-
1,139,506	-
116,656	-
2	-
2,021	-
3,112	-
130,477	74
<u>4,370,063</u>	<u>1,009,887</u>

2,630,066	745,506
200,069	-
2,179,862	34,375
23,692	23,449
236,185	12,333
550	46,468
7,735	10,867
<u>5,278,159</u>	<u>872,998</u>
<u>(908,096)</u>	<u>136,889</u>

55,309	-
286,940	-
177,996	-
(147)	84
49,501	23
(15,325)	-
25,427	744
(14,700)	-
(126,705)	(2)
(11,958)	(158)
<u>426,338</u>	<u>691</u>

<u>(481,758)</u>	<u>137,580</u>
------------------	----------------

57,039	13,935
3,270	-
730,908	-
<u>(154,062)</u>	<u>(74,140)</u>

155,397	77,375
<u>2,590,890</u>	<u>(204,046)</u>

\$ <u>2,746,287</u>	\$ <u>(126,671)</u>
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\$ 155,397
<u>38,956</u>

<u>\$ 194,353</u>
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STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
			INDUSTRIAL		
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ -	\$ -	\$ -	\$ 312,574	\$ 118,486
Receipts from assessments	-	434,254	23,322	-	-
Receipts from student tuition and fees	1,291,397	-	-	-	-
Receipts from sales and services of auxiliary enterprises	342,196	-	-	-	-
Receipts from sales and services of educational departments	114,548	-	-	-	-
Receipts from interfund services / premiums	-	-	-	-	-
Receipts from grants and contracts	708,116	524,638	-	-	-
Receipts from student loans collected	5,779	-	-	-	-
Receipts from repayment of loans to local governments	-	-	-	-	3,894
Receipts from settlement income	-	-	3,112	-	-
Payments to suppliers, prize winners, claimants, insurance companies, or beneficiaries	(985,158)	(1,053,948)	(27,598)	(154,233)	(69,415)
Payments to employees	(2,191,897)	-	-	(6,151)	(44,138)
Payments to retirees	-	-	-	-	-
Payments for scholarships and fellowships	(193,241)	-	-	-	-
Payments for student loans issued	(6,834)	-	-	-	-
Other receipts	23,011	92,812	1,788	19,198	2,357
Other payments	(6,700)	-	(131)	-	(3,304)
Net Cash Provided (Used) by Operating Activities	<u>(898,783)</u>	<u>(2,244)</u>	<u>493</u>	<u>171,388</u>	<u>7,880</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipts from custodial funds	269,828	-	-	-	-
Receipts from share of State sales tax	55,962	-	-	-	-
Receipts from grants and contributions	1,334,127	-	-	-	-
Receipts from settlement income	-	-	-	-	185
Transfers from other Funds	679,967	-	6,000	-	16
Custodial funds disbursed	(267,161)	-	-	-	-
Grants and contributions disbursed	(848,505)	-	-	-	-
Distributions	-	-	-	(14,700)	-
Interest paid on loan due to U.S. Government	-	(8,237)	-	-	-
Transfers to other Funds	-	(2,239)	-	(144,160)	(2,144)
Other receipts	21,583	-	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	<u>1,245,801</u>	<u>(10,476)</u>	<u>6,000</u>	<u>(158,860)</u>	<u>(1,943)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of capital assets	242	-	-	-	-
Proceeds from capital debt, installment purchase contracts, and capital leases	273,715	-	-	-	-
Receipts from federal subsidy	9,745	-	-	-	-
Receipts from capital grants and contributions	27,896	-	-	-	-
Receipts from insurance recoveries	-	-	-	-	-
Transfers from other Funds	21,362	-	-	-	-
Acquisition and construction of capital assets	(481,389)	-	-	(154)	(2,184)
Interest paid on capital debt, installment purchase contracts, and capital leases	(115,754)	-	-	-	(6)
Principal paid on capital debt, installment purchase contracts, and capital leases	(102,441)	-	-	-	(111)
Net Cash (Used) by Capital and Related Financing Activities	<u>(366,624)</u>	<u>-</u>	<u>-</u>	<u>(154)</u>	<u>(2,301)</u>

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

		GOVERNMENTAL	
TOTAL		ACTIVITIES -	
ENTERPRISE		INTERNAL	
FUNDS		SERVICE FUNDS	
\$	431,060	\$	-
	457,576		-
	1,291,397		-
	342,196		-
	114,548		-
	-	1,006,703	
	1,232,754		-
	5,779		-
	3,894		-
	3,112		-
	(2,290,352)	(780,916)	
	(2,242,186)	(35,195)	
	-	(12,160)	
	(193,241)	-	
	(6,834)	-	
	139,166	344	
	(10,135)	-	
	<u>(721,266)</u>	<u>178,776</u>	
	269,828	-	
	55,962	-	
	1,334,127	-	
	185	-	
	685,983	-	
	(267,161)	-	
	(848,505)	-	
	(14,700)	-	
	(8,237)	-	
	(148,543)	(74,140)	
	21,583	-	
	<u>1,080,522</u>	<u>(74,140)</u>	
	242	889	
	273,715	-	
	9,745	-	
	27,896	-	
	-	472	
	21,362	-	
	(483,727)	(3,187)	
	(115,760)	-	
	<u>(102,552)</u>	<u>-</u>	
	<u>(369,079)</u>	<u>(1,826)</u>	

(Continued)

STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	453,907	-	258,549	-	-
Interest and dividends from investments	44,119	-	13,451	86	862
Change in cash collateral received from securities lending transactions	-	-	608	-	(912)
Purchase of investments	(596,389)	(31)	(252,467)	-	-
Net Cash Provided (Used) by Investing Activities	<u>(98,363)</u>	<u>(31)</u>	<u>20,141</u>	<u>86</u>	<u>(50)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(117,969)	(12,751)	26,634	12,460	3,586
Cash and Cash Equivalents - Beginning	639,274	16,865	87,108	43,843	97,156
Cash and Cash Equivalents - Ending	<u>\$ 521,305</u>	<u>\$ 4,114</u>	<u>\$ 113,742</u>	<u>\$ 56,303</u>	<u>\$ 100,742</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (1,023,812)	\$ (3,541)	\$ (54,762)	\$ 164,718	\$ 9,301
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	232,827	-	1,371	270	1,717
Miscellaneous income (expense)	(12,098)	-	(212)	-	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(13,713)	315	(309)	2,645	3,054
(Increase) in due from U.S. Government	-	-	-	-	(65)
(Increase) in due from other Funds	-	-	-	-	(59)
(Increase) decrease in inventories, at cost	49	-	-	948	(81)
(Increase) in other assets	(8,441)	-	-	(309)	(56)
Increase (decrease) in accounts payable	(43,594)	-	(2,555)	1,117	87
Increase (decrease) in accrued liabilities	(36,157)	1,416	-	1,999	(4,987)
(Decrease) in due to local governments	-	-	-	-	(30)
(Decrease) in due to U.S. Government	-	(123)	-	-	-
Increase (decrease) in due to other Funds	-	-	1,711	-	-
(Decrease) in due to others	-	(311)	-	-	-
Increase (decrease) in deferred revenue	6,156	-	56	-	(996)
Increase in accrued insurance losses	-	-	55,193	-	-
Increase (decrease) in other liabilities	-	-	-	-	(5)
Net Cash Provided (Used) by Operating Activities	<u>\$ (898,783)</u>	<u>\$ (2,244)</u>	<u>\$ 493</u>	<u>\$ 171,388</u>	<u>\$ 7,880</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>					
Contribution of capital assets to other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution of capital assets from other Funds	-	-	-	-	3,468
Gifts and conveyances of capital assets	33,984	-	-	-	-
Assets acquired through debt	18,274	-	-	-	-
(Loss) on disposal of capital assets, net	(7,817)	-	-	-	(4)
Increase (decrease) in fair value of investments	(18,582)	-	2,922	-	-
Amortization of bond discount and issuance costs	(2,059)	-	-	-	-
Amortization of bond premium	1,558	-	-	-	-
Amortization of deferred rent	4,900	-	-	-	-
Refinancing long-term debt	281,965	-	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ 312,223</u>	<u>\$ -</u>	<u>\$ 2,922</u>	<u>\$ -</u>	<u>\$ 3,464</u>

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
712,456	-
58,518	21
(304)	-
(848,887)	-
(78,217)	21
(88,040)	102,831
884,246	295,668
\$ 796,206	\$ 398,499

\$ (908,096) \$ 136,889

236,185	12,333
(12,310)	272
(8,008)	1,963
(65)	(4,180)
(59)	(776)
916	(231)
(8,806)	(174)
(44,945)	12,112
(37,729)	(816)
(30)	-
(123)	-
1,711	(1,093)
(311)	-
5,216	12
55,193	1,960
(5)	20,505
\$ (721,266)	\$ 178,776

\$ -	\$ (158)
3,468	13,935
33,984	-
18,274	-
(7,821)	-
(15,660)	-
(2,059)	-
1,558	-
4,900	-
281,965	-
\$ 318,609	\$ 13,777

STATE OF ARIZONA  
**STATEMENT OF FIDUCIARY NET ASSETS**  
 FIDUCIARY FUNDS

JUNE 30, 2012

(Expressed in Thousands)

	PENSION AND OTHER		
	EMPLOYEE BENEFIT	INVESTMENT	AGENCY
	TRUST FUNDS	TRUSTS	FUNDS
<b>ASSETS</b>			
Cash	\$ 161,037	\$ -	\$ 62,002
Cash and pooled investments with State Treasurer	-	-	326,655
Short-term investments	-	-	3,210
Receivables, net of allowances:			
Accrued interest and dividends	73,662	2,782	1
Securities sold	493,371	-	-
Forward contracts receivable	282,445	-	-
Contributions	51,356	-	-
Court fees	730	-	-
Due from other Funds	25,353	-	-
Other	28,698	-	1
Total receivables	<u>955,615</u>	<u>2,782</u>	<u>2</u>
Investments, at fair value:			
Temporary investments	1,500,354	-	-
Fixed income securities	6,270,904	3,223,798	-
Corporate stocks	19,543,468	-	-
Global tactical asset allocation	624,973	-	-
Real estate	2,269,864	-	-
Private equity	2,008,347	-	-
Opportunistic investments	1,223,657	-	-
Collateral investment pool	184,123	30,907	5,458
Other investments	642,559	-	-
Total investments	<u>34,268,249</u>	<u>3,254,705</u>	<u>5,458</u>
Prepaid benefits	190,732	-	-
Due from others	-	-	82,907
Custodial securities in safekeeping	-	-	3,623,680
Other assets	-	-	2,228
Property and equipment, net of accumulated depreciation	4,683	-	-
Total Assets	<u>35,580,316</u>	<u>3,257,487</u>	<u>4,106,142</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	54,442	-	-
Payable for securities purchased	546,039	4,191	-
Management fee payable	-	175	-
Obligation under securities loan agreements	184,123	30,907	5,458
Forward contracts payable	249,501	-	-
Due to U.S. Government	-	-	13,809
Due to local governments	-	-	141,446
Due to others	-	-	3,945,429
Due to other Funds	25,353	-	-
Total Liabilities	<u>1,059,458</u>	<u>35,273</u>	<u>4,106,142</u>
<b>NET ASSETS</b>			
Held in trust for:			
Pension benefits	33,060,716	-	-
Other post-employment benefits	1,460,142	-	-
Pool participants	-	3,222,214	-
Total Net Assets	<u>\$ 34,520,858</u>	<u>\$ 3,222,214</u>	<u>\$ -</u>

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, 2012  
 (Expressed in Thousands)

	PENSION AND OTHER	
	EMPLOYEE BENEFIT	INVESTMENT
	TRUST FUNDS	TRUSTS
<b>ADDITIONS:</b>		
Member contributions	\$ 1,098,438	\$ -
Employer contributions	1,293,091	-
Federal Government reimbursement	19,978	-
Retrospective rate adjustment reimbursement	15,495	-
Member purchase of service credit	66,671	-
Court fees	8,880	-
Investment income:		
Net increase (decrease) in fair value		
of investments	(534,226)	2,828
Interest income	215,132	16,649
Dividends	346,123	-
Other investment income	420,221	-
Securities lending income	6,847	279
Total investment income	454,097	19,756
Less investment expenses:		
Investment activity expenses	169,096	2,117
Securities lending expenses	916	189
Net investment income	284,085	17,450
Capital share and individual account transactions:		
Shares sold	-	4,440,304
Reinvested interest income	-	13,925
Shares redeemed	-	(4,921,506)
Net capital share and individual account transactions	-	(467,277)
Other additions	3,293	-
Total Additions	2,789,931	(449,827)
<b>DEDUCTIONS:</b>		
Retirement, disability, and survivor benefits	3,125,480	-
Refunds to withdrawing members, including interest	245,500	-
Administrative expense	41,523	-
Dividends to investors	-	16,988
Other deductions	6,835	-
Total Deductions	3,419,338	16,988
Change in net assets held in trust for:		
Pension benefits	(613,965)	-
Other post-employment benefits	(15,442)	-
Pool participants	-	(466,815)
Net Assets - Beginning	35,150,265	3,689,029
Net Assets - Ending	\$ 34,520,858	\$ 3,222,214

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, 2012  
 (Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY OF ARIZONA HEALTH NETWORK	OTHER COMPONENT UNITS	TOTAL
<b>ASSETS</b>				
Current Assets:				
Cash	\$ -	\$ 62,715	\$ 24,604	\$ 87,319
Cash and pooled investments with State Treasurer	177,318	-	77,584	254,902
Cash held by trustee	8,286	-	-	8,286
Collateral investment pool	4,743	-	2,716	7,459
Short-term investments	-	98,330	-	98,330
Restricted investments held by trustee	-	13,284	4,383	17,667
Receivables, net of allowances:				
Taxes	-	-	5,524	5,524
Interest	10,485	-	-	10,485
Loans and notes	-	-	272	272
Patient accounts receivable	-	125,548	-	125,548
Other	6,436	89,701	4,093	100,230
Due from primary government	-	-	2,716	2,716
Inventories, at cost	-	17,416	-	17,416
Other current assets	-	-	1,176	1,176
Total Current Assets	207,268	406,994	123,068	737,330
Noncurrent Assets:				
Restricted cash and pooled investments with State Treasurer	-	-	10,465	10,465
Cash held by trustee	-	-	21,300	21,300
Investments	-	80,788	-	80,788
Investments held by trustee	-	26,571	6,551	33,122
Loans and notes receivable, net of allowances	1,130,215	-	2,963	1,133,178
Other receivables, net of allowances	-	7,038	-	7,038
Investments	115,773	-	-	115,773
Other noncurrent assets	4,553	5,560	21,889	32,002
Capital assets:				
Land and other non-depreciable	-	36,530	7,768	44,298
Buildings, equipment, and other depreciable	205	734,002	37,162	771,369
Less: accumulated depreciation	(119)	(384,971)	(9,140)	(394,230)
Total Noncurrent Assets	1,250,627	505,518	98,958	1,855,103
Total Assets	1,457,895	912,512	222,026	2,592,433
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	-	61,282	17,273	78,555
Accrued liabilities	10,765	86,716	532	98,013
Obligations under securities loan agreements	4,743	-	2,716	7,459
Current portion of accrued insurance losses	-	16,382	-	16,382
Current portion of long-term debt	46,470	27,715	12,581	86,766
Current portion of other long-term liabilities	88	19,433	-	19,521
Total Current Liabilities	62,066	211,528	33,102	306,696
Noncurrent Liabilities:				
Unearned deferred revenue	2,741	-	-	2,741
Accrued insurance losses	-	14,961	-	14,961
Long-term debt	917,994	313,914	110,257	1,342,165
Other long-term liabilities	-	11,599	-	11,599
Total Noncurrent Liabilities	920,735	340,474	110,257	1,371,466
Total Liabilities	982,801	552,002	143,359	1,678,162
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	-	65,946	30,154	96,100
Restricted for:				
Debt service	-	-	21,948	21,948
Loans and other financial assistance	412,526	-	22,656	435,182
Other	-	24,318	21,219	45,537
Unrestricted	62,568	270,246	(17,310)	315,504
Total Net Assets	\$ 475,094	\$ 360,510	\$ 78,667	\$ 914,271

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

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STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
 COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Thousands)

	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b><u>FUNCTIONS/PROGRAMS</u></b>				
Water Infrastructure Finance Authority	\$ 44,562	\$ 38,014	\$ 23,099	\$ -
University of Arizona Health Network	1,166,960	1,160,468	-	2,345
Other Component Units	68,708	38,788	7,280	-
Total	<u>\$ 1,280,230</u>	<u>\$ 1,237,270</u>	<u>\$ 30,379</u>	<u>\$ 2,345</u>

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

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY OF ARIZONA HEALTH NETWORK	OTHER COMPONENT UNITS	TOTAL
\$ 16,551	\$ -	\$ -	\$ 16,551
-	(4,147)	-	(4,147)
-	-	(22,640)	(22,640)
-	-	12,171	12,171
-	-	15,991	15,991
7,695	707	806	9,208
-	-	239	239
-	-	78,385	78,385
-	-	1	1
24,246	(3,440)	84,953	105,759
450,848	363,950	(6,286)	808,512
\$ 475,094	\$ 360,510	\$ 78,667	\$ 914,271

STATE OF ARIZONA  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2012  
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
<b>ASSETS</b>					
Cash and cash equivalent investments	\$ 8,221	\$ 43,539	\$ 2,665	\$ 18,125	\$ 72,550
Receivables:					
Pledges receivable	102,987	3,622	-	11,910	118,519
Other receivables	2,891	-	169	15,474	18,534
Total receivables	<u>105,878</u>	<u>3,622</u>	<u>169</u>	<u>27,384</u>	<u>137,053</u>
Investments:					
Investments in securities	579,095	588,477	16,800	138,070	1,322,442
Other investments	43,568	4,066	474	4,164	52,272
Total investments	<u>622,663</u>	<u>592,543</u>	<u>17,274</u>	<u>142,234</u>	<u>1,374,714</u>
Net direct financing leases	25,655	-	44,925	48,903	119,483
Property and equipment, net of accumulated depreciation	15,670	12,937	207,251	135,871	371,729
Licenses	-	-	-	3,500	3,500
Other assets	<u>17,560</u>	<u>2,955</u>	<u>4,956</u>	<u>22,437</u>	<u>47,908</u>
Total Assets	<u>795,647</u>	<u>655,596</u>	<u>277,240</u>	<u>398,454</u>	<u>2,126,937</u>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	9,248	3,003	7,854	17,429	37,534
Liability under endowment trust agreements	90,133	180,231	-	20,559	290,923
Long-term debt	75,690	-	321,334	204,791	601,815
Deferred revenue	3,636	-	-	26,145	29,781
Other liabilities	<u>28,717</u>	<u>-</u>	<u>167</u>	<u>9,680</u>	<u>38,564</u>
Total Liabilities	<u>207,424</u>	<u>183,234</u>	<u>329,355</u>	<u>278,604</u>	<u>998,617</u>
<b>NET ASSETS</b>					
Permanently restricted	363,823	361,125	-	47,325	772,273
Temporarily restricted	225,375	101,634	-	29,479	356,488
Unrestricted (deficit)	<u>(975)</u>	<u>9,603</u>	<u>(52,115)</u>	<u>43,046</u>	<u>(441)</u>
Total Net Assets	<u>\$ 588,223</u>	<u>\$ 472,362</u>	<u>\$ (52,115)</u>	<u>\$ 119,850</u>	<u>\$ 1,128,320</u>

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
<b>REVENUES</b>					
Contributions	\$ 92,735	\$ 64,156	\$ -	\$ 22,759	\$ 179,650
Rental revenue	972	-	17,737	31,254	49,963
Sales and services	20,705	-	8,992	7,954	37,651
Net investment income (loss)	(6,361)	1,932	124	1,038	(3,267)
Licensing revenue	-	-	-	1,281	1,281
Other revenues	4,101	9,285	8,505	16,864	38,755
Total Revenues	<u>112,152</u>	<u>75,373</u>	<u>35,358</u>	<u>81,150</u>	<u>304,033</u>
<b>EXPENSES</b>					
Program services:					
Payments to Universities	59,307	68,680	273	15,723	143,983
Leasing related expenses	-	-	-	10,445	10,445
Payments on behalf of Universities	-	11,996	-	4,414	16,410
Other program services	-	-	-	6,489	6,489
Management and general expenses	25,790	4,357	10,199	33,372	73,718
Fundraising expenses	-	6,340	-	2,849	9,189
Interest	2,151	-	14,666	10,540	27,357
Depreciation and amortization	1,784	-	13,568	7,920	23,272
Other expenses	10,779	-	562	23,368	34,709
Total Expenses	<u>99,811</u>	<u>91,373</u>	<u>39,268</u>	<u>115,120</u>	<u>345,572</u>
Increase (decrease) in Net Assets, before extraordinary items	12,341	(16,000)	(3,910)	(33,970)	(41,539)
Extraordinary item (Primarily equity transfers)	-	-	83	1,807	1,890
Increase (decrease) in Net Assets, after extraordinary items	12,341	(16,000)	(3,827)	(32,163)	(39,649)
Net Assets - Beginning	575,882	488,362	(48,288)	152,013	1,167,969
Net Assets - Ending	<u>\$ 588,223</u>	<u>\$ 472,362</u>	<u>\$ (52,115)</u>	<u>\$ 119,850</u>	<u>\$ 1,128,320</u>

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
INDEX

	Page		Page
Note 1. Summary of Significant Accounting Policies -----	69	Note 6. Other Post-Employment Benefits -----	99
A. Reporting Entity -----	69	A. Plan Description -----	99
B. Basis of Presentation -----	73	B. Contributions, Benefits, and Refund Payments -----	99
C. Measurement Focus and Basis of Accounting -----	75	C. Funding Policy -----	99
D. Deposits and Investments -----	75	D. Annual OPEB Cost -----	100
E. Taxes Receivable -----	77	E. Funded Status and Funding Progress -----	100
F. Inventories -----	77	F. Actuarial Methods and Assumptions -----	101
G. Property Tax Calendar -----	77	Note 7. Long-Term Obligations -----	101
H. Capital Assets -----	77	A. Revenue Bonds -----	101
I. Investment Earnings -----	78	B. Grant Anticipation Notes -----	107
J. Scholarship Allowances -----	78	C. Certificates of Participation -----	108
K. Deferred Revenue -----	78	D. Leases -----	112
L. Compensated Absences -----	78	E. Compensated Absences -----	113
M. Long-Term Obligations -----	79	F. Changes in Long-Term Obligations -----	114
N. Net Assets/Fund Balances -----	79	Note 8. Interfund Transactions -----	115
O. New Accounting Pronouncements and Reporting Entity Change -----	80	Note 9. Governmental Fund Balances -----	116
Note 2. Deposits and Investments -----	80	Note 10. Fund Deficit -----	116
A. Deposits and Investment Policies -----	80	A. Risk Management Fund -----	116
B. Custodial Credit Risk – Deposits and Investments -----	82	B. Retiree Sick Leave Fund (RASL) -----	116
C. Interest Rate Risk -----	83	Note 11. Joint Ventures -----	117
D. Credit Risk -----	85	A. Large Binocular Telescope Corporation ---	117
E. Concentration of Credit Risk -----	86	B. Giant Magellan Telescope Organization ---	117
F. Foreign Currency Risk -----	86	Note 12. Commitments, Contingencies, and Compliance -----	117
G. Unemployment Compensation -----	87	A. Insurance Losses -----	117
H. Securities Lending -----	87	B. Litigation -----	119
I. Derivatives -----	90	C. Accumulated Sick Leave -----	119
J. State Treasurer’s Separately Issued Financial Statements -----	93	D. Unclaimed Property -----	119
Note 3. Receivables/Deferred Revenue -----	93	E. Construction Commitments -----	120
A. Taxes Receivable -----	93	F. Arizona State Lottery -----	120
B. Deferred Revenue -----	94	Note 13. Tobacco Settlement -----	120
Note 4. Capital Assets -----	95	Note 14. Discretely Presented Component Unit Disclosures -----	120
Note 5. Pension Benefits -----	96	A. Summary of Significant Accounting Policies -----	121
A. Participating Employers -----	96	B. Deposits and Investments -----	122
B. Contributions, Benefits, and Refund Payments -----	96	C. Program Loans -----	124
C. Funding Policy -----	96	D. Pledges Receivable -----	125
D. Annual Pension Cost -----	97	E. Direct Financing Lease Agreements -----	125
E. Funded Status and Funding Progress -----	97	F. Capital Assets -----	126
F. Actuarial Methods and Assumptions -----	98	G. Long-Term Obligations -----	126
G. Universities’ Retirement Plans -----	98	H. Net Assets Transfer -----	130
		I. Conduit Debt -----	131
		J. Accounting Restatement -----	131

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

The State is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 14 – *Discretely Presented Component Unit Disclosures*.

***Component Units***

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

GASB Statement No. 14, *The Financial Reporting Entity* (GASB 14) 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, pension plan that benefits employees of the State and participating political subdivisions and school districts. The ASRS is administered in accordance with provisions of Arizona Revised Statutes (ARS) Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is governed by a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms. Complete financial statements may be obtained from the ASRS's administrative office at P.O. Box 33910, Phoenix, AZ 85067-3910, (602) 240-2000, or its website at [www.azasrs.gov](http://www.azasrs.gov).

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

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

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

The State reports the following discretely presented component units:

*Major Component Units:*

University of Arizona Health Network and Subsidiaries (UAHN) – The UAHN, formerly known as UA Healthcare, Inc., an Arizona not-for-profit corporation, controls the University Medical Center Corporation and subsidiaries (UMC) and University Physicians Healthcare and subsidiaries (UPH). The UAHN is comprised of (i) a Hospital Division, which encompasses the University of Arizona Medical Center – University Campus, the University of Arizona Medical Center – South Campus, and more than 40 physician offices and clinics across southern Arizona, (ii) a faculty-physician Practice Plan Division known as the University of Arizona Physicians, which is the practice plan of the faculty-physicians of the University of Arizona College of Medicine, (iii) a Health Plans Division known as the University of Arizona Health Plans, which offers health care insurance plans, and (iv) the University Medical Center Foundation, which provides philanthropic support to the UAHN. The UAHN is governed by a seventeen-member board of directors whose appointments are approved by the Arizona Board of Regents. Complete financial statements may be obtained in writing from the UAHN at: The University of Arizona Health Network, Attn: Administration, 1501 N. Campbell Ave., Tucson, AZ 85724.

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

*Non-major Component Units:*

Greater Arizona Development Authority (GADA) – The purpose of the GADA is to provide cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA was created by an Act of the Arizona Legislature in 1997 and is a body, corporate and politic, of the State. The GADA is governed by a nine-member Board of Directors consisting of four State of Arizona agency heads and five members, one of which shall be a representative of a tribal nation in Arizona, appointed by the Governor of the State. Members appointed by the Governor serve staggered five-year terms. The GADA fund was originally capitalized with General Fund appropriations and requests for additional capitalization of the GADA must be approved by the Arizona Legislature. Complete financial statements may be obtained from the GADA's administrative office at 1110 West Washington Street, Suite 290, Phoenix, AZ 85007, (602) 364-1324.

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

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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, AZ 85007-2679, (602) 368-4265.

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

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB 39, with the exception of the Collegiate Golf Foundation, University Public Schools, Inc., and Campus Research Corporation (CRC). The Collegiate Golf Foundation and University Public Schools, Inc. are included because each is a legally separate organization that the State believes would be misleading to exclude due to its financial relationship or close affiliation to the State. The CRC is included because the U of A approves the budget; thus fiscal dependency exists.

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

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

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

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

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

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

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

Mesa Student Housing, LLC and Downtown Phoenix Student Housing, LLC – These component units of the State affiliated with the Universities provide facilities for use by students of ASU.

Collegiate Golf Foundation – This component unit of the State affiliated with the Universities operates an ASU-owned golf course.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

University Public Schools, Inc. (UPSI) – The UPSI operates schools designed to be on the forefront of education innovation and improvement, with the goal of developing educational models that can be scaled across the State and nation to improve the academic achievement of children.

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 67% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

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

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

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

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

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

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

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

***Related Organizations***

Related organizations are legally separate entities for which the State is not considered to be financially accountable, and that do not meet the criteria established by GASB 14 and 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) – ARS §36-482 established the Authority to issue tax-exempt bonds and loans for the purpose of improving health care for Arizona residents by providing less expensive financing for health care facilities.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Proceeds from bond issues are loaned to various qualifying nonprofit health care organizations. The health care organizations reimburse the Authority for expenses for issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years, and can be removed for cause or at will by the Governor with the consent of the Senate. The State cannot abrogate the rights of the Authority until all bonds, together with the interest thereon, are fully paid and discharged and all agreements are fully performed.

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

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

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

State Compensation Fund – ARS §23-981 established the State Compensation Fund to provide insurance to employers for workers' compensation, occupational disease compensation, and medical, surgical, and hospital benefits. The State Compensation Fund is governed by a board of directors that consists of five members appointed by the Governor for staggered terms of five years. Annually, the Governor appoints a chairman from among the board members.

***Joint Ventures***

As described in Note 11, the U of A participates in joint ventures. In accordance with U.S. GAAP, the financial activities of these joint ventures are not included in the State's financial statements.

**B. BASIS OF PRESENTATION**

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

**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. Both the governmental and business-type activities are presented on a consolidated basis by column.

The **Statement of Activities** presents a comparison between direct expenses and program revenues for each function of the State's governmental activities, and its different business-type activities. Direct expenses are those that are specifically associated

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

with a program or function and, therefore, are clearly identifiable to a particular program or function. The State does not allocate indirect expenses to programs or functions.

Program revenues include:

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

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

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

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

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major enterprise funds:

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

*The Lottery* – accounts for the activities of the Arizona State Lottery.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

Additionally, the State reports the following fund types:

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

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

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

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

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

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

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

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

The State’s business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The State 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 (unrestricted/restricted) “Cash”, “Cash with U.S. Treasury”, “Cash and pooled investments with State

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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

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

## 2. Investment Valuation

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

The ASRS’ publicly traded investments are reported at fair value determined by the custodial agents. The agents’ determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. ASRS’ derivative instruments, which consist of futures, forward contracts, options, swaps, rights, and warrants, are measured at fair value. Changes in fair values of derivative instruments are reported as net increase (decrease) in fair value of investments. Private real estate, private equity, and opportunistic partnership investments are valued based on the partnerships’ March 2012 financial statements adjusted for cash flows through June 30, 2012. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, the ASRS, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment’s degree of risk. Security transactions and any resulting gains or losses are accounted for on a trade date basis. Net investment income (loss) includes net increase (decrease) in the fair value of investments, interest income, dividend income, real estate, private equity, and opportunistic investments income, and total investment expense. This includes investment management, real estate, private equity, and opportunistic investment expenses and all other significant investment related costs.

For the PSPRS, the EORP, and the CORP, investments are reported at fair market value. Short term investments are reported at cost plus accrued interest. Equity securities are valued at the last reported sales price. Fixed income securities are valued using the last reported sales price or the estimated fair market value as determined by the fixed income broker/dealers plus accrued interest. Investments in hedge funds are valued monthly at the last reported valuations. Limited partnership investments in credit opportunities, private equity, real assets, and real estate are valued on a quarterly or monthly basis at last reported valuations adjusted by any subsequent cash flows. Joint venture real estate investments are reported at fair market value using either appraisals or manager assessment to estimate the fair market value. Appraisals will be performed every three years on a rolling schedule unless circumstances warrant otherwise. Investment income is recognized as earned.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**E. TAXES RECEIVABLE**

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

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2012. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2012, but not collected until the following month.

**F. INVENTORIES**

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

**G. PROPERTY TAX CALENDAR**

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

**H. CAPITAL ASSETS**

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

Most capital assets are depreciated over their estimated useful lives. However, the State reports most infrastructure assets using the modified approach, as provided by GASB Statement No. 34. Under this approach, rather than being depreciated, costs to maintain and preserve these assets are expensed. This approach is discussed further in the Required Supplementary Information portion of this report. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

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

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

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

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.

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

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

**I. INVESTMENT EARNINGS**

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

**J. SCHOLARSHIP ALLOWANCES**

Student tuition and fee revenues, and certain other revenues earned by the three State Universities are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Changes in Fund Net 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 uncovered State employees and University employees, an employee generally forfeits accumulated annual leave in excess of 240 hours as of the last day of the last pay period for a calendar year, unless the Director of the Department of Administration authorizes an exception. Uncovered State employees shall forfeit accumulated annual leave in excess of 320 hours as of the end of each calendar year, unless an exception is authorized. University employees may accumulate up to 264 hours of vacation, and any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Except for University employees, an employee who separates from State service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation. University employees, upon termination of employment, are paid all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status.

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

For sick leave policy, see Note 12.C.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**M. LONG-TERM OBLIGATIONS**

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

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

**N. NET ASSETS/FUND BALANCES**

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

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, or imposed by law through constitutional provisions, voter initiatives, or court orders.

**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.

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

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

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

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

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

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

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

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**Budget Stabilization Fund**

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

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

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

The BSF's fund balance as of June 30, 2012, was \$250.1 million.

**O. NEW ACCOUNTING PRONOUNCEMENTS AND REPORTING ENTITY CHANGE**

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The provisions related to the use and reporting of the alternative measurement method are effective on issuance (December 2009). The provisions related to the frequency and timing of measurements are effective for periods beginning after June 15, 2011. The State has implemented the requirements of this standard, but they had no effect on the financial statements.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for periods beginning after June 15, 2011. As the State has already implemented the requirements of this standard, there is no effect on the financial statements.

The ACA was established through House Bill 2001, Fiftieth Legislature, Second Special Session (2011), to replace the now sunset Arizona Department of Commerce (ADC) on July 1, 2011. The sunset ADC's assets were transferred to the ACA through this legislative action. As discussed earlier in Note 1.A., the ACA is reported in the State's financial statements as a discretely presented component unit based on criteria set forth in GASB 14.

**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 Industrial Commission (the Commission). These entities maintain the majority of the deposits and investments of the primary government. The investment policies of these organizations are defined according to State statutes, or a governing board, or both, and are described below.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

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

The State statutes and the State Treasurer's investment policies designed to administer these statutes restrict investments to obligations of the U.S. Government and its agencies, obligations or other evidence of indebtedness of the State and certain local government subdivisions, negotiable certificates of deposit, bonds, debentures and notes issued by 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, exchange traded 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 - FF&C, Local Government Investment Pool – Medium Term, and Local Government Investment Pool – Medium Term FF&C]. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with ARS §35-311.

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

In December 2011, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Modified Third Amended Lehman Brothers Joint Plan of Liquidation. In April 2012, approximately \$2.4 million was received as an initial payout of funds being held by the Indenture Trustee for Lehman Brothers securities. The payout received was allocated to participants based on the participant's share balance and then transferred to the LGIP, reducing the carry or cost basis in the Lehman Brothers Pool. As of June 30, 2012, the carry or cost basis and the fair value for the Lehman Brothers Pool were \$37.0 million and \$8.3 million, respectively. The next distribution is expected to be on October 1, 2012, and generally, every six months after that date. The remaining amount to be recovered is unknown.

The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net 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.

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

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

State statutes authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. As such, investment management shall discharge the duties of their position with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a "prudent person" acting in enterprise of a like character and with like aims as that of the system, subject to certain statutory limitations and restrictions.

The ASRS invests in short-term securities, obligations of the U.S. government or agencies of the U.S. government, corporate bonds, common and preferred stocks (domestic and foreign), mortgages, derivatives, commodities, real estate, private equity, and opportunistic investments. Per ARS §38-719, no more than 80% 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% of the voting stock of any one corporation may be owned. No more than 30% of the ASRS' assets may be invested in foreign securities, and those investments shall be made only by investment managers with demonstrated expertise in such investments. No more than 10% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank. No more than 1% of the ASRS' assets may be invested in economic development projects authorized as eligible for such investment

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

by the ACA. ARS §35-392 requires divestment from investments in companies that do business in Sudan, Iran, or other State Sponsors of Terrorism countries under certain conditions. Subject to the limitations noted above, the ASRS Board may authorize the ASRS Director to make investments that are designated by the ASRS Board and that do not exceed 50% of the assets of the investment account measured at cost. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

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

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

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

## **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's, the Retirement Systems', and the Universities' deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. Surety collateral for the Universities and the Retirement Systems must be equal to at least 100% of the bank balance required to be collateralized (102% for the State Treasurer). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of either: 1) U.S. Government obligations, State obligations, or obligations of counties or municipalities within the State, 2) State Treasurer's warrant notes, or 3) the safekeeping receipt of the financial institution accepting the deposit. As of June 30, 2012, the State had uncollateralized and uninsured deposits in the amount of \$12.4 million and \$30.0 million in deposits collateralized with securities held by the pledging financial institution's trust department or agent, but not in the State's name.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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, 2012, the State had \$141.9 million in securities that were uninsured, not registered in the State's name, and held by either the counterparty or counterparty's trust department or agent, but not in the State's name.

**C. INTEREST RATE RISK**

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

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

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

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

The following table presents the State Treasurer's, the ASU's, and the Commission's weighted average maturity in years by investment type as of June 30, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (in years)</b>
Asset backed securities	\$ 314,449	1.69
Certificates of deposit (negotiable)	118,078	0.19
Commercial mortgage backed securities	64,787	20.79
Commercial paper	739,686	0.08
Corporate notes & bonds	1,604,515	4.13
FDIC certificates of deposit	80,384	0.39
Government bonds	46,105	7.37
Government mortgage backed securities	18,750	22.58
Money market mutual funds	442,014	0.06
Non-government backed collateralized mortgage obligations (CMOs)	4,394	20.78
Repurchase agreements	2,712,316	0.01
U.S. agency mortgage backed securities	1,132,184	20.11
U.S. agency mortgage backed securities – full faith	661,170	22.82
U.S. agency securities	1,428,471	2.66
U.S. agency securities – full faith	41,708	2.64
U.S. Treasury securities	1,163,289	1.97
Other	7,261	5.54
<b>Total</b>	<b>\$ 10,579,561</b>	<b>5.07</b>

The ASRS has not adopted a specific formal policy for interest rate risk, but does set more restrictive requirements in its contracts with money managers. The ASRS uses effective duration to identify and manage its interest rate risk. Effective duration

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions. The following table presents ASRS' effective duration by investment type as of June 30, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Effective Duration (in years)</b>
Asset backed securities	\$ 204,094	2.30
Commercial mortgage backed securities	232,768	2.90
Corporate bonds	1,758,232	4.90
Government agency CMOs	46,306	2.40
Government bonds	1,246,563	8.10
Government mortgage backed securities	1,345,250	2.00
Government related bonds	509,250	7.20
Non-government backed CMOs	33,325	7.20
Total	<u>\$ 5,375,788</u>	4.94

The PSPRS, the EORP, and the CORP do not have a formal policy in regards to interest rate risk. The NAU's and the U of A's investment policies for their operating funds limit the maximum maturity of any fixed-rate or variable-rate security to five years from the settlement date of purchase. The NAU's and the U of A's endowment funds have no such limitation. The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution as of June 30, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>					
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>11-15</b>	<b>16-20</b>	<b>More than 20</b>
Certificates of deposit (negotiable)	\$ 23,326	\$ 10,794	\$ 12,283	\$ 249	\$ -	\$ -	\$ -
Collateralized bond obligations (CBOs)	23,242	-	-	12,335	-	-	10,907
Corporate notes & bonds	912,987	40,649	98,755	44,096	7,748	5,930	715,809
Government bonds	3,954	510	3,444	-	-	-	-
Money market mutual funds	140,487	140,487	-	-	-	-	-
Mortgages	11,110	-	-	-	352	3,606	7,152
U.S. agency securities	267,822	99,368	124,346	-	-	22,937	21,171
U.S. Treasury securities	11,090	-	11,090	-	-	-	-
Other	14,573	4,103	1,297	9,078	95	-	-
Total	<u>\$ 1,408,591</u>	<u>\$ 295,911</u>	<u>\$ 251,215</u>	<u>\$ 65,758</u>	<u>\$ 8,195</u>	<u>\$ 32,473</u>	<u>\$ 755,039</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

The following table presents the State's investments at fair value that are considered to be highly sensitive to interest rate changes as of June 30, 2012 (expressed in thousands):

Interest Rate Terms	Corporate Notes & Securities	U.S. Agency Securities	Other	Total
Investments with coupon tied to the London Interbank Offered Rate (LIBOR) plus/minus a fixed basis point which resets from monthly to quarterly.	\$ 306,500	\$ -	\$ -	\$ 306,500
Asset back securities (including full faith) with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	143,847	43,340	-	187,187
Investments with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	93,372	37,790	98,095	229,257
Mortgage backed securities (including full faith) - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value.	56,346	1,812,104	-	1,868,450
Investments - where on certain specified dates, the issuer can call the investment. If the investment is not called, the interest rate is increased by a specified amount. Prevailing interest rates may go up faster than the increases in the coupon interest rate.	-	116,954	-	116,954
Other investments with high sensitivity to rate changes.	-	247,717	-	247,717
Total	\$ 600,065	\$ 2,257,905	\$ 98,095	\$ 2,956,065

**D. CREDIT RISK**

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

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

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

The PSPRS', the EORP's, and the CORP's investment policies are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. The fixed income portfolio must have a minimum weighted average quality rating of A3 by Moody's and A- by S & P. Fixed income securities must have a minimum quality rating of Baa3 by Moody's and BBB- by S & P at the time of purchase. The portion of the bond portfolio in securities rated Baa3 through Baa1 by Moody's and BBB- through BBB+ by S & P must be 20% or less of the fair value of the fixed income portfolio. Commercial paper must have a minimum quality rating of P-1 by Moody's and A1 by S & P at the time of purchase.

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

pools' investments. Also, the ASU's capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture.

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

The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2012. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC Thru D	A-1	Not Rated
Asset backed securities	\$ 475,203	\$ 292,145	\$ 30,243	\$ 23,695	\$ 45,211	\$ 37,717	\$ 8,082	\$ 27,411	\$ 3,919	\$ 6,780
CBOs	23,242	-	-	10,907	-	-	-	12,335	-	-
Certificates of deposit (negotiable)	141,404	-	73,100	-	-	-	-	-	44,978	23,326
Commercial mortgage backed securities	296,804	256,031	11,980	15,345	10,775	2,350	-	-	-	323
Commercial paper	739,686	-	-	-	-	-	-	-	739,686	-
Corporate notes & bonds	3,916,905	120,478	414,747	1,258,004	588,771	274,864	411,840	125,171	-	723,030
Government agency CMOs	46,306	-	45,993	-	-	-	-	-	-	313
Government bonds	843,951	15,236	814,181	1,859	12,675	-	-	-	-	-
Government mortgage backed securities	1,345,932	-	1,345,250	-	-	-	-	-	-	682
Government related bonds	509,250	37,736	423,048	45,935	462	-	-	-	-	2,069
Money market mutual funds	582,501	521,132	51,013	-	-	-	-	-	-	10,356
Mortgages	11,110	-	-	-	352	-	-	10,758	-	-
Non-government backed CMOs	37,719	7,627	3,581	4,497	376	-	281	12,068	-	9,289
Repurchase agreements	1,182,316	-	1,182,316	-	-	-	-	-	-	-
U.S. agency mortgage backed securities	1,132,184	-	1,132,184	-	-	-	-	-	-	-
U.S. agency securities	1,651,887	2,501	1,564,960	56,680	-	-	-	-	27,738	8
Other	85,359	-	5,012	-	-	-	-	-	-	80,347
<b>Total</b>	<b>\$13,021,759</b>	<b>\$1,252,886</b>	<b>\$7,097,608</b>	<b>\$1,416,922</b>	<b>\$658,622</b>	<b>\$314,931</b>	<b>\$420,203</b>	<b>\$187,743</b>	<b>\$816,321</b>	<b>\$856,523</b>

**E. CONCENTRATION OF CREDIT RISK**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the Universities', and the Commission's investment policies provide that no more than 5% of their investments shall be invested in securities issued by a single corporation and its subsidiaries/affiliates, however, securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt. The State Treasurer also exempts from this policy the purchase of Treasurer Warrant Notes for the State Agencies Diversified pool, provided the maximum amount of the notes purchased shall not exceed 50% of the market value of the pool. The PSPRS', the EORP's, and the CORP's investment policies state that no more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency, or corporation other than bonds used as direct obligations of and fully guaranteed by the U.S. Government. At June 30, 2012, investments in any one issuer, that were more than 5% of the primary government's total investments, are as follows: (i) Federal Home Loan Mortgage Corporation (fair value of \$923.7 million, or 9.5%) and (ii) Federal National Mortgage Association (fair value of \$982.4 million, or 10.1%).

**F. FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit. The State does not have a formal policy regarding foreign currency risk. The ASRS, the PSPRS, the EORP, and the CORP are the primary State agencies that have foreign currency risk. Per ARS §38-719, no more than 30% of the ASRS' assets

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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 has not adopted a formal policy that is more restrictive. According to State statutes, the PSPRS, the EORP, and the CORP shall not invest more than 20% of the combined assets of the system or other plans that the Board of Trustees manages in foreign securities. The following table summarizes the State's foreign currency risk as of June 30, 2012 (expressed in thousands):

Currency	Foreign Currency Risk by Investment Type at Fair Value				
	Short Term	Fixed Income	Equities	Other Investments	Total
Australian Dollar	\$ 319	\$ -	\$ 96,674	\$ -	\$ 96,993
Brazilian Real	-	-	3,064	-	3,064
British Pound Sterling	1,263	5,109	443,619	29,910	479,901
Canadian Dollar	(57)	4,809	101,060	-	105,812
Danish Krone	127	-	21,066	-	21,193
Euro Currency	14,386	79,883	465,661	250,118	810,048
Hong Kong Dollar	366	-	60,959	-	61,325
Israeli Shekel	16	-	3,744	-	3,760
Japanese Yen	3,694	-	366,987	-	370,681
New Taiwan Dollar	1	-	14,832	-	14,833
New Zealand Dollar	28	-	1,303	-	1,331
Norwegian Krone	37	-	10,990	-	11,027
Singapore Dollar	18	-	49,525	-	49,543
South Korean Won	-	-	21,772	-	21,772
Swedish Krona	41	-	52,581	-	52,622
Swiss Franc	1,386	-	200,172	-	201,558
Total	\$ 21,625	\$ 89,801	\$ 1,914,009	\$ 280,028	\$ 2,305,463

**G. UNEMPLOYMENT COMPENSATION**

Pursuant to Section 904 of the Social Security Act (42 U.S.C. §1104), unemployment insurance contributions from Arizona employers are deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States. 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, The Northern Trust Company, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2012. The Northern Trust Company's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105% of the market value of securities loaned plus accrued interest. The market value at June 30, 2012 for loaned securities collateralized by cash and non-cash collateral was \$43.8 million and \$20 thousand, respectively. As part of the securities lending transactions, The Northern Trust Company received cash and non-cash collateral valued at \$44.3 million and \$0, respectively, at June 30, 2012. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 63 days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 39 days as of June 30, 2012. Cash collateral may also be invested separately in term loans, in which case the investments match the loan term. Cash open loans can be terminated on demand by either the lender or the borrower and there were no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net 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, 2012, the Commission had \$44.3 million outstanding as payable for securities lending. A maximum restriction on the amount of securities that can be lent out at any one time of \$43.976 million was set by the Commission on September 29, 2008.

## **2. Arizona State Retirement System**

The ASRS is permitted by ARS §38-715(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. The ASRS currently receives as collateral at least 102% of the market value of the loaned securities and maintains collateral at no less than 100% for the duration of the loan. At year-end, the ASRS had no counter party risk to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. Securities loaned are initially fully collateralized by cash (USD and Euro), irrevocable letters of credit, U.S. Government or agency securities, sovereign debt, corporate bonds and equities. Cash collateral may be reinvested (under certain constraints) in: a) instruments issued or fully guaranteed by the U.S. Government, Federal agencies, or sponsored agencies or sponsored corporations, b) instruments issued by domestic corporations including corporate notes and floating rate notes, c) obligations of approved domestic and foreign banks, d) U.S. dollar-denominated instruments issued by sovereigns, sovereign supported credits, and instruments of foreign banks and corporations, e) repurchase agreements, f) insurance company funding agreements, guaranteed investment contracts and bank investment contracts, and g) money market mutual funds. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. The maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral are classified as an asset on the Statement of Fiduciary Net 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, 2012, the fair value of securities on loan was \$49.4 million; all of which were cash collateralized loans. Cash of \$50.1 million received as collateral for securities loaned was reinvested and had a net asset value of \$49.7 million, as of June 30, 2012. The securities lending payable at June 30, 2012 was \$50.1 million. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default. There are no restrictions on the dollar amount of security loans that may be made by the ASRS. The ASRS is indemnified against gross negligence and borrower default by the lending agents but is not indemnified against cash collateral reinvestment risk.

During the late summer and early fall of 2011, ongoing monitoring of ASRS securities lending exposure showed growing risks throughout Europe and in the European banking sector. In an effort to reduce the securities lending investment pools' exposure to the European banking sector, the ASRS substantially withdrew from securities lending in 2011. As a result, the market values of securities on loan decreased from \$3.5 billion as of June 30, 2011 to \$49.4 million at June 30, 2012.

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

The PSPRS, the EORP, and the CORP are permitted by ARS Title 38, Chapter 5, Articles 4, 3, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2012, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$98.2 million, \$5.7 million, and \$25.0 million, respectively. At June 30, 2012, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were \$102.1 million, \$6.0 million, and \$26.0 million, respectively. The PSPRS, the EORP, and the CORP are indemnified for broker default by the securities lending agent. The PSPRS, the EORP, and the CORP have no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the retirement system or plan.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**4. State Treasurer**

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

The State Treasurer records the cash collateral received as an asset and the same amount as obligations under securities loan agreements. As of June 30, 2012, the fair value of securities on loan was \$1.1 billion. The associated fair value of the invested collateral was \$1.1 billion, of which \$581.4 million was invested cash collateral. All securities loans can be terminated on demand by either the State Treasurer or the borrower. For the cash collateral investments, the weighted average maturity was six days. The State Treasurer does not have the ability to pledge or sell the non-cash collateral unless there is a borrower default. The State Treasurer is indemnified against gross negligence, bad faith, or willful misconduct and borrower default by the lending agent. There were no borrower defaults during the current fiscal year. At June 30, 2012, the State Treasurer had \$581.4 million outstanding as payable for securities lending, and the following securities on loan were uninsured and held by the bank trust department not in the Treasurer’s name:

U.S. agency securities	\$ 5,059,585
U.S. Treasury securities	519,071,988
Equities S&P 600	<u>26,150</u>
Total Fair Value	<u><u>\$ 524,157,723</u></u>

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**I. DERIVATIVES**

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

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

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of derivative instruments for the year then ended as reported in the June 30, 2012 financial statements are as follows (expressed in thousands):

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

**Investment Derivatives by Type**

Investment Derivatives	Changes in Fair Value (1)		Fair Value at June 30, 2012		
	Classification	Amount (2)	Classification	Amount (3)	Notional (4)
Commodity futures long	Net increase (decrease) in fair value of investments	\$ (67,680)	Not applicable	\$ -	\$ 212,032
Commodity futures short	Net increase (decrease) in fair value of investments	3,925	Not applicable	-	(24)
Credit default swaps bought	Net increase (decrease) in fair value of investments	473	Equity securities	1,534	47,716
Credit default swaps written	Net increase (decrease) in fair value of investments	54	Equity securities	161	29,025
Fixed income futures long	Net increase (decrease) in fair value of investments	88,416	Not applicable	-	213
Fixed income futures short	Net increase (decrease) in fair value of investments	(21,366)	Not applicable	-	-
Fixed income options bought	Net increase (decrease) in fair value of investments	97	Equity securities	472	19,400
Fixed income options written	Net increase (decrease) in fair value of investments	1,095	Equity securities	(1,581)	(182,000)
Foreign currency futures long	Net increase (decrease) in fair value of investments	(6,595)	Not applicable	-	255,730
Foreign currency futures short	Net increase (decrease) in fair value of investments	14,973	Not applicable	-	-
Foreign currency options bought	Net increase (decrease) in fair value of investments	(71)	Equity securities	321	23,858
Foreign currency options written	Net increase (decrease) in fair value of investments	(20)	Not applicable	-	-
Futures options written	Net increase (decrease) in fair value of investments	74	Not applicable	-	-
Foreign currency forwards	Net increase (decrease) in fair value of investments	(6,328)	Forward contracts receivable	542	244,457
Index futures long	Net increase (decrease) in fair value of investments	(90,881)	Not applicable	-	13,506
Index futures short	Net increase (decrease) in fair value of investments	1,606	Not applicable	-	-
Pay fixed interest rate swaps	Net increase (decrease) in fair value of investments	(7,265)	Equity securities	(1,827)	40,500
Receive fixed interest rate swaps	Net increase (decrease) in fair value of investments	1,906	Equity securities	1,654	73,144
Rights	Net increase (decrease) in fair value of investments	99	Equity securities	192	727
Warrants	Net increase (decrease) in fair value of investments	118	Equity securities	27	275
Total		<u>\$ (87,370)</u>		<u>\$ 1,495</u>	<u>\$ 778,559</u>

(1) Excludes futures margin payments.

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

(3) Negative values refer to liabilities.

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

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

The credit quality ratings of counterparties as described by NRSROs and the counterparties' related risk concentration, as of June 30, 2012, are as follows (expressed in thousands):

<b>Counterparty Risk and Ratings</b>						
<b>Counterparty Name</b>	<b>Total</b>	<b>Risk</b>	<b>Ratings</b>			
	<b>Net Exposure</b>	<b>Concentration</b>	<b>S&amp;P</b>	<b>Fitch</b>	<b>Moody's</b>	
Australia and New Zealand Banking Group	\$ 25	0.50%	AA-	AA-	Aa2	
Barclay's Bank, PLC Wholesale	722	14.36%	A+	A	A2	
Barclay's Capital	17	0.34%	A+	A	A2	
BNP Paribas, S.A.	12	0.24%	AA-	A+	A2	
Citibank N.A.	409	8.13%	A	A	A3	
Citigroup Global Markets, CME	138	2.74%	A-	A	Baa2	
Credit Suisse FOB CME	124	2.47%	A+	A	A1	
Credit Suisse London Branch	1	0.02%	A+	A	A1	
Deutsche Bank London	854	16.98%	A+	A+	A2	
Goldman Sachs Capital Markets, L.P.	4	0.08%	A-	A	A3	
HSBC Bank USA	1,399	27.82%	AA-	AA	A1	
JP Morgan Chase Bank N.A.	522	10.38%	A+	AA-	Aa3	
Royal Bank of Canada	7	0.14%	AA-	AA	Aa3	
Royal Bank of Scotland, PLC	20	0.40%	A	A	A3	
Standard Chartered Bank	210	4.18%	AA-	AA-	A1	
State Street Bank and Trust Co.	77	1.53%	AA-	A+	Aa2	
USB AG	475	9.45%	A	A	A2	
Westpac Banking Corporation	12	0.24%	AA-	AA-	Aa2	
Total	\$ 5,028	100.00%				

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

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

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

The ASRS's derivatives do not have contingent features.

The aggregate fair value of investment derivative instruments in asset positions at June 30, 2012 was \$5.0 million. This represents the maximum amount of loss in case of default of all counterparties for the aggregated (positive) fair value of over-the-counter positions as of June 30, 2012. There was no collateral received or netting arrangements in place at June 30, 2012 with counterparties that would reduce this exposure.

The ASRS has exposure to interest rate risk due to the investment in an interest rate swap agreement. The required risk disclosures are included in the Interest Rate Risk schedule in Note 2.C. The fair value balance and notional amount of the interest rate swap outstanding as of June 30, 2012, for the year then ended, as reported in the June 30, 2012 financial statements are as follows (expressed in thousands):

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**Interest Rate Risk for Interest Rate Swap**

<b>Asset ID</b>	<b>Asset Description</b>	<b>Interest Rate</b>	<b>Fair Value</b>	<b>Notional</b>
<b>PAY FIXED INTEREST RATE SWAPS</b>				
99S0BNJ83/	BWU0830U7 IRS USD R V 03MLIBOR /	2.75%	\$ (367)	\$ 7,200
99S0BNJ91	BWU0830U7 IRS USD P F 2.75000			
99S0BXJZ1/	BWU0640U7 IRS USD R V 03MLIBOR /	2.25%	(1,460)	33,300
99S0BXX06	BWU0640U7 IRS USD P F 2.25000			
Total Pay Fixed Interest Rate Swaps			<u>\$ (1,827)</u>	<u>\$ 40,500</u>
<b>RECEIVE FIXED INTEREST RATE SWAPS</b>				
99S0AQS53/	SWU026R29 IRS BRL R F 10.53000 /	10.53%	\$ 1,392	\$ 40,774
99S0AQS61	SWU026R29 IRS BRL P V 00MBZDIO			
99S0CHEZ0/	SWU0083W7 IRS CAD R F 2.0000 /	2.00%	124	17,657
99S0CHF06	SWU0083W7 IRS CAD P V 03MCDOR			
99S0CK058/	SWU000609 IRS CAD R F 2.25000 /	2.25%	138	14,714
99S0CK066	SWU000609 IRS CAD P V 03MCDOR			
Total Receive Fixed Interest Rate Swaps			<u>\$ 1,654</u>	<u>\$ 73,145</u>

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

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

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

The State Treasurer issues separately published Annual Audited Financial Statements. These financial statements provide additional information relating to the State Treasurer’s total investing activities, including the investment trust funds. A copy of the State Treasurer’s Office Annual Audited Financial Statements can be obtained from their office at: Office of the Arizona State Treasurer, 1700 W. Washington Street, Phoenix, AZ 85007, (602) 604-7800, or their website at [www.aztreasury.gov](http://www.aztreasury.gov).

**NOTE 3. RECEIVABLES/DEFERRED REVENUE**

**A. TAXES RECEIVABLE**

The following table summarizes taxes receivable at June 30, 2012 (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	\$ 533,970	\$ -	\$ -	\$ -	\$ 49,437	\$ 583,407
Income – individual and corporate	207,395	-	-	-	-	207,395
Motor vehicle and fuel	-	64,439	-	-	-	64,439
Luxury	7,290	-	-	-	18,023	25,313
Unemployment	-	-	89,019	-	-	89,019
Other	-	-	-	4,763	-	4,763
Gross taxes receivable	748,655	64,439	89,019	4,763	67,460	974,336
Allowance for uncollectible taxes	(346,638)	-	-	-	-	(346,638)
Net Taxes Receivable	<u>\$ 402,017</u>	<u>\$ 64,439</u>	<u>\$ 89,019</u>	<u>\$ 4,763</u>	<u>\$ 67,460</u>	<u>\$ 627,698</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**B. DEFERRED REVENUE**

At June 30, 2012, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

<b>Current Deferred Revenue for Governmental Funds:</b>	<u><b>Unavailable</b></u>	<u><b>Unearned</b></u>	<u><b>Total Deferred Revenue</b></u>
General Fund:			
Delinquent sales tax	\$ 74,540	\$ -	\$ 74,540
Delinquent income tax	62,177	-	62,177
Tobacco settlement	50,000	-	50,000
Child support administrative reimbursements	4,363	-	4,363
Advance insurance premium taxes	-	42,224	42,224
Advance land lease payments	-	291	291
Public assistance overpayments	723	-	723
Vaccine & commodity food supplement	-	6,223	6,223
Advance county acute and long term care payments	-	20,888	20,888
Federal grants	107,835	-	107,835
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Loans & notes receivable for asset purchases and construction	5,872	-	5,872
Land Endowments Fund:			
Land sales receivable	335,561	-	335,561
Land leases receivable	6,995	-	6,995
Advance land lease payments	-	19,477	19,477
Non-Major Funds:			
Public assistance overpayments	739	-	739
Advance payments for Hawaii/Arizona PMMIS Alliance	-	510	510
Total Current Deferred Revenue for Governmental Funds	<u>648,805</u>	<u>89,613</u>	<u>738,418</u>
<b>Noncurrent Deferred Revenue for Governmental Funds:</b>			
General Fund:			
Advance land lease payments	-	4,261	4,261
Land Endowments Fund:			
Land sales receivable	197,914	-	197,914
Advance land lease payments	-	72,102	72,102
Total Noncurrent Deferred Revenue for Governmental Funds	<u>197,914</u>	<u>76,363</u>	<u>274,277</u>
Total Current and Noncurrent Deferred Revenue for Governmental Funds	<u>\$ 846,719</u>	<u>\$ 165,976</u>	<u>\$ 1,012,695</u>
<b>Current Deferred Revenue for Proprietary Funds:</b>			
Universities:			
Unexpended cash advances received		\$ 49,534	
Auxiliary sales and services		6,294	
IBM lease related to acquisition of research park		4,900	
Student tuition and fees		54,412	
Deposits		800	
Other		16,019	
Industrial Commission Special Fund:			
Other		103	
Non-Major Funds:			
Policyholders' advance premiums		3,532	
Magazine subscriptions		2,205	
Other		91	
Internal Service Funds:			
Other		32	
Total Current Deferred Revenue for Proprietary Funds		<u>\$ 137,922</u>	
<b>Noncurrent Deferred Revenue for Proprietary Funds:</b>			
Universities:			
IBM lease related to acquisition of research park		\$ 5,370	
Total Noncurrent Deferred Revenue for Proprietary Funds		<u>\$ 5,370</u>	

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**NOTE 4. CAPITAL ASSETS**

Capital asset activities for the fiscal year ended June 30, 2012 were as follows (expressed in thousands):

	<b>Primary Government</b>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments &amp; Reclassifications</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Non-depreciable capital assets:					
Land	\$ 2,757,806	\$ 143,543	\$ (15,126)	\$ 235	\$ 2,886,458
Construction in progress	3,839,780	558,844	(654,950)	(208,014)	3,535,660
Development in progress	85,672	921	-	(1,007)	85,586
Infrastructure	11,604,566	606,662	(3,791)	-	12,207,437
Total Non-depreciable Capital Assets	18,287,824	1,309,970	(673,867)	(208,786)	18,715,141
Depreciable capital assets:					
Buildings	1,899,835	5,247	(6,447)	208,278	2,106,913
Improvements other than buildings	157,580	1,354	(315)	761	159,380
Equipment	757,691	68,527	(36,474)	5,403	795,147
Software and other intangibles	129,857	1,043	(3,296)	3,343	130,947
Infrastructure	21,953	-	-	181	22,134
Total Depreciable Capital Assets	2,966,916	76,171	(46,532)	217,966	3,214,521
Less accumulated depreciation for:					
Buildings	(670,109)	(55,921)	3,172	28	(722,830)
Improvements other than buildings	(84,941)	(4,658)	97	16	(89,486)
Equipment	(578,816)	(56,165)	34,223	1,589	(599,169)
Software and other intangibles	(100,318)	(16,475)	3,296	839	(112,658)
Infrastructure	(10,726)	(656)	-	-	(11,382)
Total Accumulated Depreciation	(1,444,910)	(133,875)	40,788	2,472	(1,535,525)
Total Depreciable Capital Assets, Net	1,522,006	(57,704)	(5,744)	220,438	1,678,996
Total Governmental Activities Capital Assets, Net	<u>\$ 19,809,830</u>	<u>\$ 1,252,266</u>	<u>\$ (679,611)</u>	<u>\$ 11,652</u>	<u>\$ 20,394,137</u>
<b>Business-type Activities:</b>					
Non-depreciable capital assets:					
Land	\$ 186,143	\$ 17,419	\$ (650)	\$ 1	\$ 202,913
Construction in progress	404,843	273,623	(92,026)	(254,058)	332,382
Development in progress	-	3,949	-	-	3,949
Collections	18,657	540	(24)	-	19,173
Total Non-depreciable Capital Assets	609,643	295,531	(92,700)	(254,057)	558,417
Depreciable capital assets:					
Buildings	4,196,305	240,581	(7,325)	192,588	4,622,149
Improvements other than buildings	4,816	-	-	-	4,816
Equipment	1,460,701	95,461	(44,570)	16,230	1,527,822
Software and other intangibles	19,328	-	-	-	19,328
Infrastructure	399,431	4,382	-	45,256	449,069
Total Depreciable Capital Assets	6,080,581	340,424	(51,895)	254,074	6,623,184
Less accumulated depreciation for:					
Buildings	(1,681,521)	(129,101)	4,402	-	(1,806,220)
Improvements other than buildings	(3,068)	(187)	-	-	(3,255)
Equipment	(1,059,584)	(90,546)	39,876	3	(1,110,251)
Software and other intangibles	(10,244)	(1,705)	-	-	(11,949)
Infrastructure	(155,227)	(14,646)	-	-	(169,873)
Total Accumulated Depreciation	(2,909,644)	(236,185)	44,278	3	(3,101,548)
Total Depreciable Capital Assets, Net	3,170,937	104,239	(7,617)	254,077	3,521,636
Total Business-type Activities Capital Assets, Net	<u>\$ 3,780,580</u>	<u>\$ 399,770</u>	<u>\$ (100,317)</u>	<u>\$ 20</u>	<u>\$ 4,080,053</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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

General government	\$ 28,410
Health and welfare	14,043
Inspection and regulation	2,175
Education	1,992
Protection and safety	58,472
Transportation	15,199
Natural resources	<u>13,584</u>
Total Governmental Activities	<u>\$ 133,875</u>

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

Lottery	\$ 270
Industrial Commission Special Fund	1,371
Universities	232,827
Other	<u>1,717</u>
Total Business-type Activities	<u>\$236,185</u>

**NOTE 5. PENSION BENEFITS**

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

**A. PARTICIPATING EMPLOYERS**

The number of participating government employer groups as of June 30, 2012 for each pension plan is shown below:

<u>ASRS</u>	<u>PSPRS</u>	<u>EORP</u>	<u>CORP</u>
593	237	38	40

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

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

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

**C. FUNDING POLICY**

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

**Cost-sharing plans**

For the year ended June 30, 2012, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 10.50% and 9.87% of the members' annual covered payroll, respectively. The State's contributions to the ASRS for the years ended June 30, 2012, 2011, and 2010 were \$180.8 million, \$160.5 million, and \$155.3 million, respectively, for the primary government which were equal to the required contributions for these years.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

In addition, active EORP members were required by statute to contribute 10% of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 31.20% of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2012, 2011, and 2010 were \$2.2 million, \$2.1 million, and \$2.6 million, respectively, which were equal to the required contributions for these years.

**Agent plans**

For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 16.06 – 84.55%. Active CORP members were required by statute to contribute 8.41% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 7.88 – 8.39%.

**D. ANNUAL PENSION COST**

The State's annual pension costs, required contributions, and excess other post-employment benefit (OPEB) contributions applied to pensions (see Note 6.A. and B. for explanation) for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2012, is as follows (expressed in thousands):

	Annual Pension Costs	Pension Contributions Made	
		Required Contributions	Excess OPEB Contributions
PSPRS	\$ 31,253	\$ 31,253	\$ 499
CORP	32,058	32,058	2,988

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

	Fiscal Year Ended	Annual Pension Costs	Percentage of Annual Cost Contributed	Net Pension
PSPRS	6/30/2012	\$ 31,253	102%	\$ 2,627
	6/30/2011	29,418	101%	2,128
	6/30/2010	29,008	101%	1,691
CORP	6/30/2012	32,058	109%	12,854
	6/30/2011	29,466	110%	9,866
	6/30/2010	33,251	106%	6,952

**E. FUNDED STATUS AND FUNDING PROGRESS**

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2012	\$ 522,980	\$ 1,043,064	\$ (520,084)	50.1%	\$ 82,352	(631.5)%
CORP	6/30/2012	888,879	1,244,672	(355,793)	71.4%	370,041	(96.1)%

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**F. ACTUARIAL METHODS AND ASSUMPTIONS**

The State's actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit pension plans for the most recent actuarial valuation as of 6/30/2012 and actuarial valuation as of 6/30/2010 that was used to determine the fiscal year 2012 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
Actuarial valuation date	6/30/2010	6/30/2010	6/30/2012	6/30/2012
Actuarial cost method	projected unit credit	projected unit credit	entry age normal	entry age normal
Actuarial assumptions:				
Investment rate of return	8.5%	8.5%	8.0%	8.0%
Projected salary increases	5.5 – 8.5%	5.5 – 8.5%	5.0 – 9.0%	5.0 – 8.25%
Payroll growth	5.5%	5.5%	5.0%	5.0%
Cost-of-living adjustments	None	None	None	None
Amortization method	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization period	26 years for unfunded, 20 years for overfunded	26 years for unfunded, 20 years for overfunded	24 years for unfunded, 20 years for overfunded	24 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market 80%/120% market	7-year smoothed market 80%/120% market

**G. UNIVERSITIES' RETIREMENT PLANS**

Faculty, academic professionals, service professionals, and administrative staff at the three universities (the ASU, the NAU, and the U of A) may select one of four 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), or the ASRS. The contract with VALIC was terminated by the Universities in September 2011. The ASRS is a defined benefit plan and the other three plans are defined contribution plans. The three defined contribution plans are administered by independent insurance and annuity companies approved by the ABOR. In addition, the U of A employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions made by employees vest immediately and the Universities' contributions vest no later than after five years of full-time employment. Employees and Universities' contributions and associated returns earned on investments may be withdrawn starting upon termination of employment, death, or retirement. The distribution of employee contributions and associated investment earnings are made in accordance with the employee's contract with the applicable insurance and annuity company.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2012, plan members and the three Universities were each required by statute to contribute an amount equal to 7.00% of an employee's compensation, except for a 7.26% member contribution and a 7.86% University contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2012, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	\$ 30,639	\$ 30,639	\$ 61,278
VALIC	434	434	868
Fidelity	18,713	18,713	37,426
ASRS	14	13	27

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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

**A. PLAN DESCRIPTION**

**Cost-sharing plans**

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

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

**Agent plans**

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

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

**Cost-sharing plan**

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

**Agent plans**

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

**C. FUNDING POLICY**

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**Cost-sharing plan**

For the year ended June 30, 2012, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.24% of the members' annual covered payroll for LTD. In addition, the State also contributed 0.63% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2012, 2011, and 2010 were \$4.4 million, \$4.5 million, and \$7.5 million, respectively, for the primary government which were equal to the required contributions for these years. The State's contributions for the HBS to the ASRS for the years ended June 30, 2012, 2011, and 2010 were \$11.5 million, \$10.5 million, and \$12.3 million, respectively, for the primary government which were equal to the required contributions for these years.

**Agent plans**

For the year ended June 30, 2012, the PSPRS participating State agencies were required to contribute at actuarially determined rates of 1.34 – 5.53% of covered payroll. The CORP participating State agencies were required to contribute at actuarially determined rates of 1.27 – 1.53% of covered payroll.

**D. ANNUAL OPEB COST**

The State's annual OPEB costs, OPEB contributions made, and increase in OPEB obligation for each of the agent, multiple-employer defined benefit post-employment plans for the year ended June 30, 2012, is as follows (expressed in thousands):

	Annual OPEB Costs	OPEB Contributions Made	Increase in OPEB Obligation
PSPRS	\$ 2,225	\$ 1,726	\$ 499
CORP	5,213	2,225	2,988

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

	Fiscal Year Ended	Annual OPEB Costs (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
PSPRS	6/30/2012	\$ 2,225	77.6%	\$ 2,627
	6/30/2011	2,180	79.9%	2,128
	6/30/2010	2,074	79.9%	1,691
CORP	6/30/2012	5,213	42.7%	12,854
	6/30/2011	5,010	41.8%	9,866
	6/30/2010	3,996	45.9%	6,952

**E. FUNDED STATUS AND FUNDING PROGRESS**

The State's funded status for each of the agent, multiple-employer defined benefit post-employment plans, as of the year ended June 30, 2012, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
PSPRS	6/30/2012	-	\$ 29,183	\$ (29,183)	0.0%	\$ 82,352	(35.4)%
CORP	6/30/2012	-	58,596	(58,596)	0.0%	370,041	(15.8)%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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

**F. ACTUARIAL METHODS AND ASSUMPTIONS**

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

The State’s actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit post-employment plans for the most recent actuarial valuation as of 6/30/2012 and actuarial valuation as of 6/30/2010 that was used to determine the fiscal year 2012 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
	6/30/2010	6/30/2010	6/30/2012	6/30/2012
Actuarial valuation date	6/30/2010	6/30/2010	6/30/2012	6/30/2012
Actuarial cost method	projected unit credit	projected unit credit	entry age normal	entry age normal
Actuarial assumptions:				
Investment rate of return	8.5%	8.5%	8.0%	8.0%
Projected salary increases	5.5 – 8.5%	5.5 – 8.5%	5.0 – 9.0%	5.0 – 8.25%
Payroll growth	5.5%	5.5%	5.0%	5.0%
Cost-of-living adjustments	None	None	None	None
Amortization method	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed	level percent-of-pay closed
Remaining amortization period	26 years for unfunded, 20 years for overfunded	26 years for unfunded, 20 years for overfunded	24 years for unfunded, 20 years for overfunded	24 years for unfunded, 20 years for overfunded
Asset valuation method	7-year smoothed market	7-year smoothed market	7-year smoothed market	7-year smoothed market
			80%/120% market	80%/120% market

**NOTE 7. LONG-TERM OBLIGATIONS**

**A. REVENUE BONDS**

**Governmental Activities**

**1. Department of Administration**

The State has pledged portions of its revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2010A. These bonds provide additional working capital to the State to pay appropriated expenditures of the State’s General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State’s General Fund from the State Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Lottery Fund net of operating expenses of the Lottery. At June 30, 2012, pledged revenues totaled \$96.2 million, of which 21.5% (\$20.7 million) was required to cover debt service. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is \$638.0 million.

**2. Arizona Department of Transportation**

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal, 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 \$1.6 billion. During the year, Highway Revenue Bonds totaling \$555.9 million were issued to (i) finance portions of the ADOT’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) advance-refund the ADOT’s outstanding Senior Series 2001 Bonds (\$19.3 million), Senior Series 2002 Bonds (\$38.2 million), Senior Refunding Series 2002A Bonds (\$65.6 million), Senior Series 2002B Bonds (\$88.2 million), Senior Series 2003 Bonds (\$89.9 million), and advance-refund portions of the ADOT’s Subordinated Series 2003A Bonds (\$75.5 million) and Subordinated Refunding Series 2004B

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Bonds (\$92.3 million) to reduce the total debt service payments by \$2.4 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$24.1 million. The payment to the refunded bond escrow agent totaled \$511.9 million, representing principal of \$468.9 million, interest of \$20.6 million, and premium of \$22.4 million.

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

The ADOT has pledged future motor vehicle and related fuel fees and taxes to repay \$1.6 billion in outstanding Highway Revenue Bonds issued since 2001. Proceeds from the bonds finance portions of the ADOT's Five Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2036. The total principal and interest remaining to be paid on the bonds is \$2.4 billion. Principal and interest paid for the current year and total pledged revenues were \$139.0 million and \$369.8 million, respectively. The annual principal and interest payments on the bonds required 37.6% of the pledged revenues.

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the 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 \$877.8 million. During the year, Transportation Excise Tax Revenue Bonds totaling \$159.5 million were issued to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, AZ and the costs of issuing the bonds.

The ADOT has pledged future transportation excise taxes to repay \$981.8 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, AZ. The bonds are payable solely from transportation excise taxes and are payable through 2026. The total principal and interest remaining to be paid on the bonds is \$1.3 billion. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$216.2 million, respectively. The annual principal and interest payments on the bonds required 47.9% of the pledged revenues.

In the current and prior fiscal years, the ADOT refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2012 totaled \$511.9 million.

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

In prior fiscal years, the School Facilities Board (SFB) refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded 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 SFB at June 30, 2012 totaled \$281.4 million.

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, State school trust revenue bonds, and State school trust revenue refunding bonds outstanding at June 30, 2012. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of \$72.263 million are not available to pay debt service on the State school trust revenue bonds and State school trust revenue refunding bonds per the debt documents. At June 30, 2012, pledged revenues totaled \$581.6 million, of which 15.2% (\$88.5 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2021 is \$682.6 million.

**Business-Type Activities**

**4. Universities**

**a. University of Arizona**

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

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

On March 27, 2012, the U of A sold System Revenue Bonds Series 2012A (2012A Bonds) for \$74.050 million and System Revenue Refunding Bonds Taxable Series 2012B (2012B Bonds) for \$21.860 million dated April 25, 2012. The 2012A Bonds include \$39.965 million of serial bonds with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2013 to 2032. The 2012A Bonds also include two term bonds consisting of \$14.970 million with an interest rate of 5.00% due June 1, 2037 and \$19.115 million with an interest rate of 5.00% due June 1, 2042. The 2012A Bonds with maturity on or after June 1, 2023, are subject to optional redemption without premium. The 2012A Bonds with maturity on June 1, 2037 and June 1, 2042 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2012A Bonds sold at a premium of \$9.686 million. The U of A realized net proceeds of \$83.211 million after payment of \$525 thousand for issuance costs and underwriter discounts. The net proceeds were used to finance the North End Zone Project at Arizona Stadium and to refund in advance of maturity a portion of the System Revenue Bonds Series 2004A totaling \$9.335 million. The redemption generated a net present value benefit of \$757 thousand (difference between the present values of the old debt and the new debt service payments) for the U of A. The advance refunding reduced the U of A's debt service by \$233 thousand in the first year, increased it by \$3 thousand in the second year, and reduced debt services by an average of \$38 thousand in years three through sixteen. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.204 million. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2029 using the straight-line method. The refunded system revenue bonds will be paid by investments held in an irrevocable trust with a combined carrying value of \$10.204 million. The refunded debt is considered defeased and is not included in the accompanying financial statements.

The 2012B Bonds include \$21.860 million of serial bonds with interest rates ranging from 0.62% to 3.29% and maturity dates ranging from 2013 to 2022. The 2012B Bonds are subject to optional redemption at a redemption price equal to the greater of (1) par, or (2) the net present value of remaining debt service payments, discounted to the date of redemption at a rate based on United States Treasury Securities plus 25 basis points. The U of A realized net proceeds of \$21.694 million after payment of \$166 thousand for issuance costs and underwriter discounts. The net proceeds were used to refund in advance of maturity a portion of the System Revenue Bonds Series 2003 totaling \$20.250 million. The advance refunding generated a net present value benefit of \$1.589 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The advance refunding reduced the U of A's debt service by \$494 thousand in the first year and an average of \$110 thousand in years two through eleven. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.649 million. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2022 using the straight-line method. The refunded system revenue bonds will be paid by investments held in an irrevocable trust with a combined carrying value of \$21.203 million. The refunded debt is considered defeased and is not included in the accompanying financial statements.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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

The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2012. The bonds generally provide financing for various capital projects of the U of A. These pledged revenues include student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues such as indirect cost recovery and certain investment income. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2012, pledged revenues totaled \$924.6 million, of which 5.3% (\$48.9 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 4% of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2044 is \$1.2 billion.

**b. Northern Arizona University**

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

On January 25, 2012, the NAU sold \$24.0 million of Tax-exempt 2012 System Revenue Bonds for the purpose of construction and equipping of an approximately 463,086 square foot, six-story parking garage accommodating up to approximately 1,400 cars, to be located on the NAU's main campus.

In prior years, the NAU defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2012, \$34.9 million of such bonds outstanding are considered defeased.

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

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

The NAU has pledged portions of its gross revenues towards the payment of debt related to system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2012. The bonds generally provide financing for various capital projects of the NAU. These pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. Pledged revenue has averaged \$195.0 million for the prior five years. At June 30, 2012, pledged revenues totaled \$246.1 million, of which 8.5% (\$20.9 million) was required to cover current year debt service.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of June 1, 2041 is \$650.5 million.

**c. Arizona State University**

At June 30, 2012, the ASU had issued a combination of fixed and variable rate bonds. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain revenue bonds of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all defeased bonds outstanding at June 30, 2012 totaled \$118.2 million.

The ASU has pledged gross revenues as defined in the bond indentures towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2012. These related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. The pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. For the year ended June 30, 2012, pledged revenues totaled \$977.8 million, of which 6.5% (\$63.8 million, net of federal direct payments) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for revenue bonds through final maturity of July 1, 2042 is \$1.5 billion. In addition, the ASU has pledged the same revenues on a subordinated basis to secure the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds and the Series 2010 A/B and 2011 SPEED revenue bonds. Research Park bonds outstanding at June 30, 2012 were \$8.7 million with annual debt service payments of approximately \$1.2 million through July 1, 2021. SPEED revenue bonds outstanding at June 30, 2012, were \$64.7 million with annual debt service payments of approximately \$2.6 million through June 30, 2016, \$5.7 million through June 30, 2031, and \$2.7 million through August 1, 2031, net of the Build America federal direct payments.

In April 2012, the ASU issued \$213.4 million in system revenue and refunding bonds, Tax-Exempt Series 2012A and Taxable Series 2012B, with an average maturity of 13.2 years and an average interest rate of 3.64%. The bonds were issued to fund the construction of a third business school facility at the Tempe campus, new dining facilities and student fitness complexes at the West and Polytechnic campuses, various information technology infrastructure projects, and to refund outstanding bonds of the ASU and two of its component units, the ACFFC (Adelphi Commons I Student Housing) and Mesa Student Housing. The refunded debt is considered defeased and related liabilities are not included in the accompanying financial statements. The issuance of the refunding bonds, with an average maturity of 6.6 years and an average interest rate of 2.63%, resulted in a \$9.0 million reduction in future debt service payments, with an economic gain of \$8.7 million based upon the present value savings.

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

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the ARRA. As such, the ASU is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35% of the interest owing on such bonds on each interest payment date. The amount paid to the ASU by the Federal government may be reduced or limited due to such issues as failure by the ASU to submit the required information, offsets to reflect any amounts owed by the ASU to the Federal government, or changes in the law that would reduce or eliminate such payments. For accounting purposes, any direct payments received from the U.S. Treasury are recorded as nonoperating revenue.

In November 2011, the ASU issued \$30.9 million in SPEED subordinate lien revenue bonds, Tax-Exempt Series 2011, with an average maturity of 13.1 years and an average interest rate of 3.93%. The bonds were issued to fund classroom and laboratory renovations and infrastructure and campus site improvements.

The ASU has outstanding two series of variable rate demand system revenue refunding bonds, Series 2008A and Series 2008B, totaling \$99.2 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2012 was 0.15% for the Series 2008A Bonds and 0.17% for the Series 2008B Bonds. To provide credit and liquidity support for the bonds, on March 1, 2012, the ASU entered into an Irrevocable Transferable Direct-Pay Letter of Credit (LOC) with JPMorgan Chase Bank, N.A. (JPMorgan), under which the ASU has agreed to a commitment fee for the LOC of 0.38% per annum. Should the Series

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

2008A/B bond rating change, the commitment fee could increase according to the fee agreement. Assuming all of the \$49.6 million Series 2008A and \$49.6 million Series 2008B bonds are not resold within 365 days, the ASU would be responsible to make quarterly installment principal payments, with the last payment on the fourth anniversary of JPMorgan acquiring the bonds, plus interest to be calculated as established in the LOC.

Securities and cash restricted for bonds debt service held by the trustee at June 30, 2012 totaled \$44.6 million.

The ASU presently plans to issue up to \$96.0 million in senior lien system revenue bonds during fiscal year 2013.

Effective January 1, 2007, the ASU entered into a \$103.0 million notional amount swap agreement (hedging derivative instrument) expiring on July 1, 2034, in conjunction with the 2008 variable rate demand system revenue refunding bonds (2008 Bonds). The \$103.0 million in notional amount is not exchanged; it is only the basis on which the interest payments are calculated and it decreases as principal payments are made on the 2008 Bonds. The intention of the swap was to effectively convert the variable rate interest on the 2008 Bonds to a synthetic fixed rate. Under the terms of the swap agreement, the ASU pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2012 was 0.18%. At June 30, 2012, the synthetic fixed interest rate on the bonds was:

<b>Interest Rate Swap</b>	<b>Terms</b>	<b>Rates (%)</b>
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(.18)
Net interest rate swap payments		3.73
Variable-rate bond coupon payments	Spread to SIFMA	.16
Synthetic fixed interest rate on bonds		3.89

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

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

As of June 30, 2012, the ASU was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the ASU would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A by Fitch, A by S&P and A3 by Moody's as of June 30, 2012. Based on current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the ASU's overall exposure exceeds predetermined levels. Collateral may be held by the ASU or a third party custodian.

As of June 30, 2012, the swap had a fair value of \$(22.9) million, which represents the cost to the ASU to terminate the swap. The June 30, 2011 fair value was \$(10.0) million. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. In accordance with GASB 53, the fair value of the ASU's hedging derivative instrument is reported on the statement of net assets as an asset (deferred outflow-interest rate swap) and a liability (derivative instrument-interest rate swap).

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2012 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2012
Governmental Activities:				
Department of Transportation	2001-2012	2013-2036	2.00-5.50%	\$2,601,810
School Facilities Board	2002-2008	2013-2021	.14-5.50%	566,190
Department of Administration	2010	2013-2029	3.00-5.00%	425,420
Business-type Activities:				
University Revenue Bonds	1992-2012	2013-2045	.16-6.64%	1,942,755

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2012 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service						
	Governmental Activities			Business-type Activities			
	Total Principal	Total Interest	Total	Total Principal	Total Interest	Net Payments (Receipts) on Swap Agreement	Total
2013	\$ 195,195	\$ 173,340	\$ 368,535	\$ 59,710	\$ 93,996	\$ 3,612	\$ 157,318
2014	215,135	164,411	379,546	63,545	90,923	3,518	157,986
2015	224,505	154,072	378,577	71,740	87,900	3,419	163,059
2016	241,470	143,482	384,952	77,195	84,926	3,315	165,436
2017	246,350	132,252	378,602	77,935	81,506	3,206	162,647
2018-2022	1,212,675	479,628	1,692,303	372,385	357,426	14,198	744,009
2023-2027	873,635	202,728	1,076,363	415,350	261,742	10,542	687,634
2028-2032	298,730	62,194	360,924	363,130	161,193	5,878	530,201
2033-2037	85,725	7,621	93,346	257,045	87,475	770	345,290
2038-2042	-	-	-	157,500	25,795	-	183,295
2043-2045	-	-	-	27,220	2,071	-	29,291
Total	\$ 3,593,420	\$ 1,519,728	\$ 5,113,148	\$ 1,942,755	\$ 1,334,953	\$ 48,458	\$ 3,326,166

**B. GRANT ANTICIPATION NOTES**

Grant Anticipation Notes (GANs) are issued by the ADOT and secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The original amount of GANs issued in prior years and outstanding at the start of the fiscal year was \$392.5 million. During the year, GANs totaling \$43.8 million were issued to pay the costs of projects (as specified) and the costs of issuing the GANs. The ADOT advance-refunded a portion of the GANs Series 2003A (\$18.3 million) and the Series 2004B (\$25.7 million) to reduce the total debt service payments by \$2.5 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2.5 million. The payment to the refunded bond escrow agent totaled \$48.4 million, representing principal of \$44.0 million and interest of \$4.4 million.

The ADOT has pledged federal revenues to repay \$335.2 million in outstanding GANs issued since 2004. Proceeds from the GANs pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The GANs are payable solely from federal revenues and are payable through 2026. The total principal and interest remaining to be paid on the GANs is \$435.8 million. Principal and interest paid for the current year and total pledged revenues were \$75.0 million and \$815.8 million, respectively. The annual principal and interest payments on the GANs required 9.2% of the pledged revenues.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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, 2012
Governmental Activities:				
Department of Transportation	2004-2012	2013-2026	2.50-5.25%	\$ 335,230

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

Annual Debt Service			
Governmental Activities			
Fiscal Year	Total Principal	Total Interest	Total Debt Service
2013	\$ 38,990	\$ 18,446	\$ 57,436
2014	48,530	16,436	64,966
2015	53,040	11,854	64,894
2016	47,350	9,553	56,903
2017	11,770	7,393	19,163
2018-2022	67,935	27,886	95,821
2023-2026	67,615	9,043	76,658
Total	\$ 335,230	\$ 100,611	\$ 435,841

**C. CERTIFICATES OF PARTICIPATION**

**Governmental Activities**

**1. Department of Administration**

The State has issued COPs to finance construction or improvements of various capital assets. Additionally, the State issued COPs Series 2010A and 2010B to finance the acquisition of certain property from the State by the trustee, with which the proceeds of were deposited to the State's General Fund to pay appropriated expenditures of the State. The COPs Series 2010A and 2010B sale-leaseback transactions are nominal sales, with the State retaining all rights of ownership and control of the properties. Accordingly, they are accounted for under the financing method since the State has such an extensive continuing involvement in the properties for the entire duration of the agreement. The State's obligation to make lease payments and any other obligations of the State under the lease are subject to, and dependent upon, annual appropriations made by the 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**

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

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

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, 2012 totaled \$311.1 million.

**Business-Type Activities**

**3. Universities**

**a. University of Arizona**

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

On May 23, 2012, the U of A issued Refunding COPs Series 2012A-1, Taxable Series 2012A-2, Series 2012B, and Series 2012C (2012A-C COPs) dated June 20, 2012 for \$157.875 million at a net premium of \$21.021 million. Interest rates on the 2012A-C COPs range from 1.48% to 5.00% and maturity dates from 2013 to 2031. The 2012A-C COPs maturing on or after June 1, 2022 are subject to optional redemption prior to maturity without premium. There are also extraordinary redemption dates pursuant to the debt documents.

The U of A realized net proceeds from the 2012A-C COPs of \$177.953 million after payment of \$943 thousand for issuance costs and underwriter discounts. The net proceeds were used for the following:

- i Current-refund the COP Series 2001B and 2002B with an outstanding principal balance of \$25.765 million. The current refunding generated a combined net present value economic gain of \$3.561 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The refunding decreases the U of A's debt service by \$1.995 million in year one and \$1.542 million in year two. In addition, annual debt service decreases by an average of \$3 thousand in years three through eleven. The current refunding resulted in a difference between the reacquisition price and the carrying amount of the old debt of \$588 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 2023 using the straight-line method.
- i Refund, in advance of maturity, a portion of the outstanding principal on the COP Series 2003A, 2003B, and 2004A totaling \$144.485 million. The advance-refunding generated a combined net present value economic gain of \$12.610 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The advance refunding decreases the U of A's debt service by \$1.086 million in year one, \$833 thousand in year two, \$6.185 million in year three, \$4.203 million in year four, and \$244 thousand in year five. In addition, annual debt service decreases by an average of \$5 thousand in years six through seventeen. The advance refunding resulted in a difference between the reacquisition price and the carrying amount of the old debt of \$7.390 million. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2023 using the straight-line method. The refunded COPs Series 2003A, 2003B, and 2004A will be paid by investments held in an irrevocable trust with a combined fair value of \$152.102 million. Accordingly, the trust account assets and liability for those defeased COPs are not included in the accompanying financial statements.

**b. Arizona State University**

At June 30, 2012, the ASU has issued fixed rate COPs. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain COPs of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased COPs are not included in the accompanying financial statements. The principal amount of all such COPs outstanding at June 30, 2012 was \$65.4 million.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2012 totaled \$7.0 million.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

A summary of the COPs issued as of June 30, 2012 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
<b>Governmental Activities:</b>					
Department of Administration:					
Health Lab/HRIS 2002A	2002	2023	\$ 63,270	\$ 24,295	4.50 – 5.50
1000 Bed Prison 2004B	2004	2019	31,965	18,640	5.25
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	238,990	211,025	3.50 – 5.00
General Fund Budget Reconciliation 2010A	2010	2030	709,090	709,090	2.00 – 5.25
General Fund Budget Reconciliation 2010B	2010	2030	289,705	289,705	2.00 – 5.00
School Facilities Board:					
New School Construction 2003A	2003	2014	372,730	78,285	4.25 – 5.00
New School Construction 2003B	2004	2015	194,610	43,595	4.00 – 5.25
New School Construction 2004A	2004	2019	47,160	26,545	3.25 – 5.00
New School Construction 2004B	2005	2017	190,040	68,540	4.25 – 5.25
New School Construction 2004C	2005	2020	47,585	31,505	4.75 – 5.00
Refunding Certificates of 2003A	2005	2018	201,125	196,375	3.25 – 5.00
Refunding Certificates of 2003B	2005	2019	80,055	75,565	3.25 – 5.00
Refunding Certificates of 2004B	2005	2020	53,045	51,975	3.25 – 5.00
New School Construction 2008	2009	2024	580,035	520,575	4.00 – 5.75
Refunding Certificates of 2003B	2011	2020	11,100	11,100	3.00 – 3.50
Refunding Certificates of 2004B	2011	2020	10,000	10,000	3.00 – 5.00
Refunding Certificates of 2008	2011	2020	37,685	37,685	3.00 – 5.00
Qualified School Construction 2010	2011	2028	91,325	91,325	6.00
<b>Total Governmental Activities</b>			\$ 3,249,515	\$ 2,495,825	

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
<b>Business-type Activities:</b>					
Arizona State University:					
2002 Certificates of Participation	2002	2019	\$ 103,800	\$ 9,920	4.76
2004 Certificates of Participation	2005	2031	80,275	70,075	4.89
2005A Certificates of Participation	2005	2031	110,115	95,350	4.36
2006 Certificates of Participation	2006	2031	15,810	13,520	4.53
2006 Refunding Certificates of Participation	2007	2027	65,890	64,580	4.15
2011A Mercado Refunding Certificates of Participation	2011	2025	8,465	8,465	4.27
University of Arizona:					
Fixed Student Union	1999	2020	21,607	3,930	5.13 – 5.30
Student Housing/Health Bldg./UA North	2002	2022	76,965	3,365	5.00 – 5.50
Refund COPs 1997 & Portion of COPs 2001B	2003	2013	10,615	885	4.75
Med. Research. Bldg./Biomed Sci.&Biotech Bldg./Tech. Infra.	2004	2014	153,960	10,360	4.75 – 5.21
Chem.Bldg./Res.Life/Highland Pkg.Garage/Rfnd. COPS 1994A	2004	2015	42,020	7,605	5.25
Refund COPs 1999A	2005	2024	12,660	12,660	4.00 – 5.00
Refund COPs 1999	2005	2024	14,825	14,825	5.00
Refund COPs 2001A	2005	2022	16,330	16,330	4.13 – 5.00
Refund COPs 1999, 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	29,460	21,580	4.00 – 5.00
Refund COPs 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	58,650	56,220	3.88 – 5.00
Biomed Research Collaborative Bldg. Project	2006	2031	18,240	15,785	4.00 – 5.00
Refund COPs 2001A, 2001B, 2002A, 2004B	2007	2031	105,080	104,110	4.00 – 4.50
Refund COPs 2001B	2012	2014	2,145	2,145	2.00 – 3.00
Refund COPs 2003A	2012	2022	10,190	10,190	1.48 – 3.42
Refund COPs 2002B	2012	2023	20,600	20,600	2.00 – 5.00
Refund COPs 2003B & 2004A	2012	2031	124,940	124,940	3.00 – 5.00
Northern Arizona University:					
2004 Certificates of Participation	2005	2031	37,585	32,680	4.85
2005 Certificates of Participation	2006	2031	40,255	34,815	4.65
2006 Certificates of Participation	2006	2018	12,445	2,045	4.35
<b>Total Business-type Activities</b>			<u>\$ 1,192,927</u>	<u>\$ 756,980</u>	

Principal and interest debt service requirements on COPs outstanding at June 30, 2012 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service					
	Governmental Activities			Business-type Activities		
	Total Principal	Total Interest	Total Amount Required	Total Principal	Total Interest	Total Amount Required
2013	\$ 156,705	\$ 121,384	\$ 278,089	\$ 34,961	\$ 34,919	\$ 69,880
2014	164,250	113,626	277,876	36,888	33,668	70,556
2015	172,290	105,380	277,670	32,524	32,530	65,054
2016	180,845	96,597	277,442	40,376	28,483	68,859
2017	189,870	87,350	277,220	46,430	28,326	74,756
2018-2022	786,975	307,310	1,094,285	256,286	107,038	363,324
2023-2027	503,725	147,829	651,554	183,610	51,093	234,703
2028-2031	341,165	21,238	362,403	125,905	12,406	138,311
Total	<u>\$ 2,495,825</u>	<u>\$ 1,000,714</u>	<u>\$ 3,496,539</u>	<u>\$ 756,980</u>	<u>\$ 328,463</u>	<u>\$ 1,085,443</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**D. LEASES**

**1. Leases**

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

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

The future minimum lease payments for long-term capital leases as of June 30, 2012 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2013	\$ 47,287	\$ 13,101
2014	47,596	12,615
2015	47,932	12,574
2016	48,202	12,321
2017	46,279	12,036
2018-2022	232,085	53,205
2023-2027	200,131	61,172
2028-2032	11,590	62,803
2033-2037	1,388	35,567
2038-2039	-	2,036
Total minimum lease payments	682,490	277,430
Less: amount representing interest	(215,535)	(113,793)
Less: amount representing executory costs	(75,771)	-
Present Value of Net Minimum Lease Payments	\$ 391,184	\$ 163,637

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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

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

	Governmental Activities	Business-type Activities
Land	\$ 435	\$ 1,945
Buildings	387,728	193,980
Equipment	<u>12,478</u>	<u>2,127</u>
	400,641	198,052
Less: accumulated depreciation	<u>(52,617)</u>	<u>(34,458)</u>
Carrying Value	<u>\$ 348,024</u>	<u>\$ 163,594</u>

**E. COMPENSATED ABSENCES**

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. The compensated absence liability attributable to governmental activities will be liquidated primarily by the General Fund. During fiscal year 2012, the State paid for compensated absences as follows: 75.66% from the General Fund, 17.63% from other funds, and 6.71% from other major funds.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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

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

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year	Due Thereafter
<b>Governmental Activities:</b>						
Long-term Debt:						
Revenue bonds	\$ 3,529,115	\$ 715,360	\$ (651,055)	\$ 3,593,420	\$ 195,195	\$ 3,398,225
Grant anticipation notes	392,495	43,825	(101,090)	335,230	38,990	296,240
Certificates of participation	2,611,255	-	(115,430)	2,495,825	156,705	2,339,120
Capital leases	400,540	7,955	(17,311)	391,184	18,663	372,521
Installment purchase contracts	245	211	(279)	177	69	108
Notes payable	59,891	9,541	(13,766)	55,666	3,115	52,551
Premiums and discounts on debt	342,602	90,753	(36,890)	396,465	35,245	361,220
Deferred amounts on refundings	(1,221)	-	408	(813)	(408)	(405)
<b>Total Long-term Debt</b>	<b>7,334,922</b>	<b>867,645</b>	<b>(935,413)</b>	<b>7,267,154</b>	<b>447,574</b>	<b>6,819,580</b>
Other Long-term Liabilities:						
Compensated absences	276,145	227,999	(203,937)	300,207	160,126	140,081
Pollution remediation obligations	21,561	9,021	-	30,582	5,067	25,515
<b>Total Other Long-term Liabilities</b>	<b>297,706</b>	<b>237,020</b>	<b>(203,937)</b>	<b>330,789</b>	<b>165,193</b>	<b>165,596</b>
<b>Total Long-term Obligations</b>	<b>\$ 7,632,628</b>	<b>\$ 1,104,665</b>	<b>\$ (1,139,350)</b>	<b>\$ 7,597,943</b>	<b>\$ 612,767</b>	<b>\$ 6,985,176</b>
<b>Business-type Activities:</b>						
Long-term Debt:						
Revenue bonds	\$ 1,742,125	\$ 364,150	\$ (163,520)	\$ 1,942,755	\$ 59,710	\$ 1,883,045
Certificates of participation	812,706	158,100	(213,826)	756,980	34,961	722,019
Capital leases	167,841	551	(4,755)	163,637	4,930	158,707
Installment purchase contracts	10,511	492	(2,606)	8,397	2,252	6,145
Notes payable	292	12,420	(69)	12,643	72	12,571
Premiums and discounts on debt	41,393	56,660	(10,060)	87,993	3,289	84,704
Deferred amounts on refundings	(20,875)	(15,230)	2,714	(33,391)	(2,031)	(31,360)
<b>Total Long-term Debt</b>	<b>2,753,993</b>	<b>577,143</b>	<b>(392,122)</b>	<b>2,939,014</b>	<b>103,183</b>	<b>2,835,831</b>
Other Long-term Liabilities:						
Compensated absences	70,851	86,588	(85,067)	72,372	16,823	55,549
<b>Total Other Long-term Liabilities</b>	<b>70,851</b>	<b>86,588</b>	<b>(85,067)</b>	<b>72,372</b>	<b>16,823</b>	<b>55,549</b>
<b>Total Long-term Obligations</b>	<b>\$ 2,824,844</b>	<b>\$ 663,731</b>	<b>\$ (477,189)</b>	<b>\$ 3,011,386</b>	<b>\$ 120,006</b>	<b>\$ 2,891,380</b>

The above long-term obligations relating to governmental activities include internal service funds. Amounts for compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets because \$149.171 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.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**NOTE 8. INTERFUND TRANSACTIONS**

**INTERFUND BALANCES AND TRANSFERS**

**Interfund Receivables/Payables**

Interfund balances as of June 30, 2012 are as follows (expressed in thousands):

Due From	Due To							Total Due To
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities Funds	Non-Major Enterprise Funds	Internal Service Funds	
General Fund	\$ -	\$ -	\$ 325	\$ 11,143	\$ 200,000	\$ 9	\$ 2,217	\$ 213,694
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	4,336	-	-	4,539	-	162	-	9,037
Land Endowments Fund	-	-	-	3,024	-	-	12	3,036
Non-Major Governmental Funds	24,235	3,829	-	1,498	-	-	510	30,072
Unemployment Compensation Fund	2	-	-	173	-	-	-	175
Industrial Commission Special Fund	-	-	-	1,711	-	-	-	1,711
Lottery Fund	13,793	-	-	4,107	10,299	-	-	28,199
Non-Major Enterprise Funds	-	-	-	-	-	-	1	1
Internal Service Funds	94	-	-	277	-	-	12	383
<b>Total Due From</b>	<b>\$ 42,460</b>	<b>\$ 3,829</b>	<b>\$ 325</b>	<b>\$ 26,472</b>	<b>\$ 210,299</b>	<b>\$ 171</b>	<b>\$ 2,752</b>	<b>\$ 286,308</b>

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

**Interfund Transfers**

Transfers for the year ended June 30, 2012 are as follows (expressed in thousands):

Transferred From	Transferred To						Total Transfers Out
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-Major Governmental Funds	Universities Fund	Industrial Commission Special Fund	Non-Major Enterprise Funds	
General Fund	\$ -	\$ 1,536	\$ 122,032	\$ 714,593	\$ -	\$ -	\$ 838,161
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	845	-	330,856	-	-	-	331,701
Land Endowments Fund	385	-	28,882	-	-	-	29,267
Non-Major Governmental Funds	104,622	224	13,787	-	6,000	16	124,649
Unemployment Compensation Fund	18	-	1,883	-	-	-	1,901
Lottery Fund	104,032	-	35,687	10,299	-	-	150,018
Non-Major Enterprise Funds	2,143	-	-	-	-	-	2,143
Internal Service Funds	74,062	-	78	-	-	-	74,140
<b>Total Transfers In</b>	<b>\$ 286,107</b>	<b>\$ 1,760</b>	<b>\$ 533,205</b>	<b>\$ 724,892</b>	<b>\$ 6,000</b>	<b>\$ 16</b>	<b>\$ 1,551,980</b>

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**NOTE 9. GOVERNMENTAL FUND BALANCES**

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet for the year ended June 30, 2012 are as follows (expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Total
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventory	\$ 891	\$ 8,235	\$ -	\$ -	\$ 9,126
Permanent fund principal	-	-	3,463,770	-	3,463,770
<b>Restricted for:</b>					
General government	16,248	-	-	21,161	37,409
Health and welfare	139,206	-	-	8,908	148,114
Inspection and regulation	4,614	-	-	-	4,614
Education	13,469	-	-	492,045	505,514
Protection and safety	20,237	-	-	-	20,237
Natural resources	4,201	-	-	6,362	10,563
Debt service	-	-	-	55,059	55,059
Capital projects	-	650,424	-	430,787	1,081,211
School facilities improvements	49,002	-	-	-	49,002
<b>Committed to:</b>					
General government	-	-	-	118,681	118,681
Health and welfare	24,647	-	-	94,502	119,149
Inspection and regulation	-	-	-	78,605	78,605
Education	10,441	-	-	-	10,441
Protection and safety	11,011	-	-	61,792	72,803
Transportation	-	110,518	-	-	110,518
Natural resources	50,126	-	-	49,987	100,113
School facilities improvements	13,244	-	-	-	13,244
<b>Unassigned:</b>	(437,035)	-	(33,861)	-	(470,896)
<b>Total Fund Balances</b>	<b>\$ (79,698)</b>	<b>\$ 769,177</b>	<b>\$ 3,429,909</b>	<b>\$ 1,417,889</b>	<b>\$ 5,537,277</b>

**NOTE 10. FUND DEFICIT**

**A. RISK MANAGEMENT FUND**

The Risk Management Fund (RMF), an internal service fund, had a deficit of \$308.2 million 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.

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

The RASL, an internal service fund, pays retirees for their accumulated sick leave upon retirement from State service when they meet certain criteria. Beginning with fiscal year 2008, the State applied the provisions of GASB Statement No. 16, *Accounting for Compensated Absences* to the RASL. This results in a liability in the RASL which is significantly greater than the actual funding of the RASL, because the liability is based upon an estimate of the total RASL benefit earned by existing employees at the balance sheet date; however, State agencies pay for only one year based on a 0.40% charge on gross payroll. The \$144.3 million fund deficit is primarily due to the above funding mechanism.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE 11. JOINT VENTURES**

**A. LARGE BINOCULAR TELESCOPE CORPORATION**

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

The U of A has committed resources equivalent to 25% of the LBT's construction costs and annual operating costs. As of June 30, 2012, the U of A has made cash contributions of \$18.2 million toward the project's construction costs, which were recorded as long-term investments on the Statement of Net Assets. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment has commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, \$801 thousand in calendar year 2011, as a reduction in its investment. At June 30, 2012, the investment totaled \$14.4 million. According to the audited financial statements of the LBT for the year ended December 31, 2011, assets, liabilities, revenues, and expenses totaled \$130.0 million, \$3.0 million, \$14.0 million, and \$13.0 million, respectively.

The LBT's separate audited financial statements can be obtained from the University of Arizona Comptroller at the University of Arizona, Financial Services, P.O. Box 3310, Tucson, AZ 85722-3310.

**B. GIANT MAGELLAN TELESCOPE ORGANIZATION**

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

Although no contributions were made during the current fiscal year, the U of A has contributed \$9.8 million to the GMTO as of June 30, 2012, and future contributions are expected. The U of A will also be responsible for manufacturing the telescope's mirrors and will receive compensation from other GMTO founders and participants based on individual contractual agreements. As of June 30, 2012, the U of A has received payment on six contracts related to the project: \$23.6 million from Observatories of the Carnegie Institution of Washington for mirror construction and process development; \$7.8 million from the GMTO for mirror construction; \$3.8 million from the GMTO for acquisition of glass and mold materials; \$2.0 million from the GMTO for acquisition of glass; \$2.5 million from the Observatories of the Carnegie Institution of Washington to develop mirror testing systems; and \$371 thousand from the GMTO to develop mirror testing systems.

**NOTE 12. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE**

**A. INSURANCE LOSSES**

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

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

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

employers and insolvent insurance carriers and would include payments for vocational rehabilitation, medical conditions incurred prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments, and compensation for loss of earnings associated with the disability.

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

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

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2012. The total estimated loss reserve of \$468.9 million increased by more than 13%, or \$55.2 million, over the prior year estimated loss reserve of \$413.7 million. There were no major shifts in any award categories. A confidence level of 80% was used in calculating medical and compensation related liabilities. A confidence level of 80% indicates a confidence that the estimated liability will be adequate to cover actual costs eight out of ten years. The reserves were discounted at an assumed rate of 1.69% for the compensation claims and zero percent for the medical claims. For medical benefits, it was assumed that the inflation in medical costs will equal the investment return earned by the Special Fund on those reserves.

The Special Fund levied the following assessment taxes for calendar year 2012: 1.50% assessment under ARS §23-1065(A), .50% assessment under ARS §23-966(D) based on insolvent carrier losses, and .50% assessment under ARS §23-1065(F), based on the total apportionment liability. The Special Fund has filed pending proof of claim requests with ancillary receivers and liquidators holding deposits and surety bonds of several insolvent companies. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier deposits ("settlement income") as revenue at the time received rather than recording a receivable.

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

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2011 and June 30, 2012 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2011	\$ 373,717	\$ 49,366	\$ 60,280	\$ 362,803
2012	362,803	58,543	56,583	364,763
Industrial Commission Special Fund:				
2011	415,284	21,864	23,408	413,740
2012	413,740	78,366	23,173	468,933

**B. LITIGATION**

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

**C. ACCUMULATED SICK LEAVE**

Sick leave includes any approved period of paid absence granted an employee due to illness, injury, or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of at least 500 hours, with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30 thousand. The benefit shall be paid either in a lump sum or in installments over a three-year period. The RASL Fund is accounted for in the financial statements as an internal service fund and accounts for the retiree accumulated sick leave liability of \$147.5 million at June 30, 2012.

**D. UNCLAIMED PROPERTY**

The State of Arizona's Uniform Unclaimed Property Act requires the deposit of certain unclaimed assets into a managed agency fund. A total of approximately \$951.4 million (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at \$38.5 million and mutual funds valued at \$9.0 million. In accordance with ARS §44-313 and ARS §44-314, for fiscal year 2012, \$24.5 million was deposited in the Department of Revenue Administrative Fund, \$2.5 million was deposited in the Housing Trust Fund, \$2.0 million was deposited in the Seriously Mentally Ill Housing Trust Fund, \$45.8 million was deposited in the General Fund, and \$318 thousand was deposited in other funds as required by State statute. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. At June 30, 2012, \$260.9 million of this liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**E. CONSTRUCTION COMMITMENTS**

The ADOT had outstanding commitments under construction contracts of \$746.4 million at June 30, 2012.

	(in thousands)	
	Expenditures to Date	Remaining Commitments
Construction contracts:		
Rural roadways	\$ 1,399,277	\$ 136,565
Small urban roadways	420,496	29,430
Urban roadways	295,282	152,454
Large urban roadways	937,646	141,249
General roadways	216,739	236,354
Sub-total	3,269,440	696,052
Design contracts	852,772	5,789
Other commitments	63,624	44,566
Total	\$ 4,185,836	\$ 746,407

**F. ARIZONA STATE LOTTERY**

Annuities are purchased for all prizes over \$400 thousand for which winners will receive the jackpot in annual installments for The Pick on-line game. These annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, S & P, Moody's, Duff & Phelps, or Weiss. The Lottery may incur future liabilities on these annuities. Aggregate future payments to prize winners on existing annuities totaled \$57.2 million at June 30, 2012. Approximately \$34.8 million of the total aggregate future payments at June 30, 2012 relate to annuities purchased from five separate insurance companies, of which approximately \$13.6 million relates to a single insurance company.

**NOTE 13. TOBACCO SETTLEMENT**

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

The State recorded tobacco settlement revenue of \$101.1 million and \$97.0 million in the fund statements and the government-wide statements in fiscal year 2012, 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, 2012.

**NOTE 14. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES**

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

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**3. Cash and Cash Equivalents**

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

**4. Investments**

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

In addition, investments include Universities' endowment funds totaling \$270.3 million managed by the Foundations. These funds are primarily held in pooled endowment funds managed for the Universities under service contracts with the Foundations and invested in the Foundations' endowment pools.

**5. Income Taxes**

The Universities-affiliated component units qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code, except for the Collegiate Golf Foundation, the ACFFC, and the NACFFC and, accordingly, there is no provision for income taxes in the accompanying financial statements. In addition, they qualify for the charitable contribution deduction and

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2012

have been classified as organizations that are not private foundations. Any unrelated business 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. The Collegiate Golf Foundation is not a tax-exempt organization.

**6. Contributions**

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

**7. Net Assets Released from Restriction**

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

**8. Use of Estimates**

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

**B. DEPOSITS AND INVESTMENTS**

**1. Component Units**

**a. Deposits and Investment Policies**

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

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

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

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**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, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>			
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More than 10</b>
Guaranteed investment contracts	\$ 80,104	\$ -	\$ 2,109	\$ 38,477	\$ 39,518
Money market mutual funds	8,286	8,286	-	-	-
U.S. agency securities	35,669	-	25,839	-	9,830
<b>Total</b>	<b>\$ 124,059</b>	<b>\$ 8,286</b>	<b>\$ 27,948</b>	<b>\$ 38,477</b>	<b>\$ 49,348</b>

The UAHN's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years. The following table presents the estimated maturities of the UAHN's investments, utilizing the segmented time distribution method as of June 30, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>			
		<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More than 10</b>
Collateralized mortgage obligations (CMOs)	\$ 4,512	\$ -	\$ 2	\$ -	\$ 4,510
Commercial paper	8,487	8,487	-	-	-
Corporate debt securities	6,330	257	3,965	2,108	-
Money market mutual funds	24,677	24,677	-	-	-
U.S. agency mortgage backed securities	12,901	-	3,996	2,016	6,889
U.S. Treasury securities	6,691	6,691	-	-	-
Other debt securities	2,510	-	-	-	2,510
<b>Total</b>	<b>\$ 66,108</b>	<b>\$ 40,112</b>	<b>\$ 7,963</b>	<b>\$ 4,124</b>	<b>\$ 13,909</b>

**d. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. 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 and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>AAA</b>	<b>AA</b>	<b>Not Rated</b>
Guaranteed investment contracts	\$ 80,104	\$ 80,104	\$ -	\$ -
Money market mutual funds	8,286	-	-	8,286
U.S. agency securities	35,669	-	35,669	-
<b>Total</b>	<b>\$ 124,059</b>	<b>\$ 80,104</b>	<b>\$ 35,669</b>	<b>\$ 8,286</b>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

The UAHN's investment in fixed income securities is limited to investment grade securities with a credit rating of BBB, or equivalent, or better. The following table presents the UAHN's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2012 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>BB</b>	<b>Not Rated</b>
CMOs	\$ 4,512	\$ 642	\$ 3,294	\$ 576	\$ -	\$ -	\$ -
Commercial paper	8,487	-	-	4,200	-	4,287	-
Corporate debt securities	6,330	-	580	4,571	1,179	-	-
Money market mutual funds	24,677	-	-	-	-	-	24,677
U.S. agency mortgage backed securities	12,901	-	12,901	-	-	-	-
Other debt securities	2,510	2,492	-	-	18	-	-
<b>Total</b>	<b>\$ 59,417</b>	<b>\$ 3,134</b>	<b>\$ 16,775</b>	<b>\$ 9,347</b>	<b>\$ 1,197</b>	<b>\$ 4,287</b>	<b>\$ 24,677</b>

**e. Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer, as of June 30, 2012, that were more than 5% of the WIFA's total investments, are as follows: (i) Bayerische Landesbank (fair value of \$40.6 million, or 13.5%), (ii) Royal Bank of Canada (fair value of \$31.4 million, or 10.4%), and (iii) Federal Home Loan (fair value of \$25.8 million, or 8.6%).

**2. Universities-Affiliated Component Units**

Investments of the Universities-affiliated component units include the following amounts at June 30, 2012. Investments are stated at fair value (expressed in thousands):

	<b>ASU Foundation</b>	<b>U of A Foundation</b>	<b>NAU Foundation</b>
Money market funds and cash equivalents	\$ 41,434	\$ -	\$ 574
Domestic/international equity securities and mutual funds	416,507	196,467	64,654
Fixed income	101,567	123,665	23,881
Absolute return limited partnerships and funds	-	160,124	-
Other investments	63,155	108,222	-
<b>Total Investments</b>	<b>\$ 622,663</b>	<b>\$ 588,478</b>	<b>\$ 89,109</b>

**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 2012 are as follows (expressed in thousands):

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Clean Water Fund	\$ 820,713	\$ 40,089	\$ (63,359)	\$ 797,443
Drinking Water Fund	370,156	22,758	(60,142)	332,772
<b>Total</b>	<b>\$ 1,190,869</b>	<b>\$ 62,847</b>	<b>\$ (123,501)</b>	<b>\$ 1,130,215</b>

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.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**D. PLEDGES RECEIVABLE**

Pledges receivable (unconditional promises to give) are recorded at their net realizable value, which is net of a discount and loss allowance. The ASU Foundation's pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 2.40% to 10.90%. An allowance for uncollectible pledges is estimated based on the ASU Foundation's collection history and is recorded as a reduction to contribution support and revenue and an increase in the allowance for uncollectible pledges. The Sun Angel Foundation's pledges receivable are recorded using a 5.14% discount rate for the year ended June 30, 2012.

Pledges receivable, as of June 30, 2012, include the following (expressed in thousands):

	ASU Foundation	Sun Angel Foundation
Gross pledges receivable	\$ 155,134	\$ 5,690
Present value discount	(11,198)	(348)
Allowance for uncollectible pledges	(40,949)	(589)
Net Pledges Receivable	<u>\$ 102,987</u>	<u>\$ 4,753</u>

**E. DIRECT FINANCING LEASE AGREEMENTS**

**1. ASU Foundation**

The ASU Foundation leases a portion of the Fulton Center building (the ASU Foundation's headquarters) to the ASU under a direct financing lease. At the end of lease, the ASU Foundation and affiliates will gift their portion of the building to the ASU and the ASU will receive title to the building. The ASU Foundation's net investment in this direct financing lease at June 30, 2012 is \$25.7 million.

**2. ACFFC**

Pursuant to a Sublease Agreement, dated April 7, 2004 and amended on April 1, 2009 (the Sublease), Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the Research Park to the ASU. The ASU will make lease payments at times in amounts sufficient to pay all principal and interest on the Series 2009A and 2009B Bonds. The Sublease has successive annual renewals without action from either party through the period ending March 31, 2034. The Sublease is subject to early termination by Nanotechnology or the ASU upon the payment in full of the Series 2009A and 2009B Bonds. Upon termination or expiration of the Sublease, the ACFFC's interest in the premises, including all buildings and improvements on the leased premises, transfers to the ASU without further consideration. ACFFC's net investment in the Nanotechnology facility direct financing lease is \$32.7 million at June 30, 2012.

Pursuant to the ASU Lease Agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the non-residential portion of Hassayampa Academic Village (Hassayampa, HAV) to the ASU which consists of the academic, tutorial, retail, and food service facilities. The lease was amended effective September 1, 2008 to change the annual renewal period through June 30, 2039 to correspond with the maturity of the Hassayampa 2008 Bonds. Any right, title, or interest of Hassayampa in and to the academic portions of the Hassayampa project will pass to the ASU without further cost upon payment in full of the Hassayampa 2008 Bonds. Lease payments are based on the fixed interest rates determined by the Hassayampa 2008 Bonds maturity schedule. ACFFC's net investment in the McAllister (HAV) direct financing lease is \$12.2 million at June 30, 2012.

**3. NACFFC**

On May 19, 2005, the NAU entered into a lease purchase agreement with NACFFC. During the 28-year lease term, the NAU will make lease payments on two apartment style student housing complexes, Pine Ridge Village and McKay Village. The NACFFC recorded a sales-type lease receivable of \$13.2 million in fiscal year 2005 for the Pine Ridge complex. The agreement also provided for the NAU's lease purchase of the McKay Village complex for \$22.7 million in fiscal year 2007. Upon expiration of the lease, the real property will become the sole property of the NAU without further cost.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

On September 1, 2006, the NAU entered into a lease purchase agreement with NACFFC. During the 30-year lease term, the agreement provides for the NAU lease purchase of the convention center/parking garage complex for \$12.4 million in fiscal year 2008. Upon expiration of the lease, the real property will become the sole property of the NAU without further cost.

**F. CAPITAL ASSETS**

Capital asset activity for the UAHN for the fiscal year ended June 30, 2012 was as follows (expressed in thousands):

	University of Arizona Health Network				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Non-depreciable capital assets:					
Land	\$ 14,671	\$ -	\$ -	\$ -	\$ 14,671
Construction in progress	3,398	23,805	-	(5,344)	21,859
Total Non-depreciable Capital Assets	18,069	23,805	-	(5,344)	36,530
Depreciable capital assets:					
Buildings	432,345	7,211	-	4,120	443,676
Improvements other than buildings	1,277	-	-	8	1,285
Equipment	270,899	18,800	(1,874)	1,216	289,041
Total Depreciable Capital Assets	704,521	26,011	(1,874)	5,344	734,002
Less accumulated depreciation for:					
Buildings	(155,287)	(14,552)	-	-	(169,839)
Improvements other than buildings	(539)	(105)	-	-	(644)
Equipment	(191,642)	(23,971)	1,125	-	(214,488)
Total Accumulated Depreciation	(347,468)	(38,628)	1,125	-	(384,971)
Total Depreciable Capital Assets, Net	357,053	(12,617)	(749)	5,344	349,031
Total UAHN Capital Assets, Net	\$ 375,122	\$ 11,188	\$ (749)	\$ -	\$ 385,561

Capital assets for the Universities-affiliated component units for the fiscal year ended June 30, 2012 include the following (expressed in thousands):

	ACFFC	Downtown Phoenix Student Housing
Buildings and improvements	\$ 194,326	\$ 114,042
Furniture, fixtures, and equipment	80,908	10,388
Other property and equipment	483	-
Total cost or donated value	275,717	124,430
Less: Accumulated Depreciation	(68,466)	(16,840)
Total Property and Equipment, Net	\$ 207,251	\$ 107,590

**G. LONG-TERM OBLIGATIONS**

**1. Component Units**

**a. Water Infrastructure Finance Authority**

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

In March 2012, the WIFA issued \$164.6 million of Water Quality Revenue Refunding Bonds Series 2012A and \$47.6 million of Water Quality Revenue Refunding Bonds Series 2012B to do an advance refunding of a portion of the 2004 Water Quality

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

Revenue Bonds, 2004 Water Quality Refunding Bonds, and 2006 Water Quality Revenue Bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The amount outstanding on those defeased bonds as of June 30, 2012 is \$216.0 million. The advance refunding was done in order to reduce debt payments. The refunding issue decreased the WIFA's total debt service payments by approximately \$14.4 million. The transaction resulted in an economic gain of approximately \$13.7 million.

In current and 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, 2012 totaled \$259.1 million.

The \$33.5 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 \$1.7 million. Amortization has been offset against interest expense. Bond premiums are being amortized over the life of the bonds. Annual amortization is \$6.4 million and is included in interest expense.

**b. University of Arizona Health Network**

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

The UPH is also subject to certain financial and nonfinancial covenants under its bond agreements. The UPH did not meet certain of its financial covenants as of June 30, 2012, and has obtained the necessary waivers from the banking institutions.

The UAHN has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds, which totaled \$23.8 million at June 30, 2012, are held by the trustee and are reflected as restricted investments held by trustee in the accompanying financial statements.

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

On August 9, 2011, the UAHN received proceeds of approximately \$74.4 million from the issuance of the UMC Hospital Revenue Bonds Series 2011, with an average interest rate of approximately 4.95%. Approximately \$38.0 million of the proceeds was used to reimburse the UAHN for costs of the acquisition, construction, expansion, improvement, and equipping of the UAHN's health care facilities. Approximately \$3.4 million was used to fund a bond reserve fund escrow account and for the costs related to the issuance of the bonds. The remaining funds were used to redeem the UMC Hospital Revenue Bonds Series 1993. A loss on refunding of approximately \$1.1 million, primarily related to unamortized financing costs and discounts on the Series 1993 Bonds, will be incurred. The loss is deferred and was amortized over the remaining term of the Series 1993 Bonds. The refunding resulted in a decrease in future debt service payments of approximately \$274 thousand and an economic gain of approximately \$257 thousand.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2012 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2012
Component Units:				
Water Infrastructure Finance Authority	2004-2012	2013-2031	.2-5.00%	\$ 910,370
University of Arizona Health Network	1993-2012	2013-2040	2.74-6.48%	326,468
Arizona Power Authority	2001-2004	2013-2018	5.00-5.25%	32,945

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2012 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service			Fiscal Year	Annual Debt Service		
	Water Infrastructure Finance Authority				University of Arizona Health Network		
	Principal	Interest	Total		Principal	Interest	Total
2013	\$ 46,470	\$ 41,249	\$ 87,719	2013	\$ 11,400	\$ 18,058	\$ 29,458
2014	45,150	38,814	83,964	2014	6,524	16,868	23,392
2015	46,495	34,831	81,326	2015	6,404	16,568	22,972
2016	49,990	34,696	84,686	2016	6,728	16,243	22,971
2017	49,110	32,882	81,992	2017	7,083	15,897	22,980
2018-2022	278,550	129,724	408,274	2018-2022	41,800	73,603	115,403
2023-2027	275,620	62,287	337,907	2023-2027	53,895	62,517	116,412
2028-2031	118,985	10,069	129,054	2028-2032	67,270	47,530	114,800
Total	\$ 910,370	\$ 384,552	\$ 1,294,922	2033-2037	80,845	27,743	108,588
				2038-2040	44,519	4,218	48,737
				Total	\$ 326,468	\$ 299,245	\$ 625,713

Fiscal Year	Annual Debt Service		
	Arizona Power Authority		
	Principal	Interest	Total
2013	\$ 4,810	\$ 1,603	\$ 6,413
2014	5,065	1,344	6,409
2015	5,330	1,071	6,401
2016	5,615	784	6,399
2017	5,905	482	6,387
2018	6,220	164	6,384
Total	\$ 32,945	\$ 5,448	\$ 38,393

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

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

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

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Due Within One Year	Due Thereafter
<b>Water Infrastructure Finance Authority:</b>						
Long-term Debt:						
Revenue bonds	\$ 958,780	\$ 212,210	\$ (260,620)	\$ 910,370	\$ 46,470	\$ 863,900
Revenue bond premium	67,999	39,700	(20,067)	87,632	-	87,632
Deferred amounts, net	(9,903)	(25,297)	1,662	(33,538)	-	(33,538)
<b>Total Long-term Debt</b>	<b>1,016,876</b>	<b>226,613</b>	<b>(279,025)</b>	<b>964,464</b>	<b>46,470</b>	<b>917,994</b>
Other Long-term Liabilities:						
Compensated absences	68	119	(99)	88	88	-
<b>Total Other Long-term Liabilities</b>	<b>68</b>	<b>119</b>	<b>(99)</b>	<b>88</b>	<b>88</b>	<b>-</b>
<b>Total Long-term Obligations</b>	<b>\$ 1,016,944</b>	<b>\$ 226,732</b>	<b>\$ (279,124)</b>	<b>\$ 964,552</b>	<b>\$ 46,558</b>	<b>\$ 917,994</b>
<b>University of Arizona Health Network:</b>						
Long-term Debt:						
Revenue bonds	\$ 292,979	\$ 72,603	\$ (39,114)	\$ 326,468	\$ 11,400	\$ 315,068
Revenue bond premium and discount	(2,744)	636	105	(2,003)	-	(2,003)
Notes payable	1,935	51	(1,282)	704	351	353
Capital leases	4,265	-	(1,755)	2,510	2,014	496
Line of credit	9,950	4,000	-	13,950	13,950	-
<b>Total Long-term Debt</b>	<b>306,385</b>	<b>77,290</b>	<b>(42,046)</b>	<b>341,629</b>	<b>27,715</b>	<b>313,914</b>
Other Long-term Liabilities:						
Compensated absences	16,069	28,979	(16,471)	28,577	19,433	9,144
Other	598	5,153	(3,296)	2,455	-	2,455
<b>Total Other Long-term Liabilities</b>	<b>16,667</b>	<b>34,132</b>	<b>(19,767)</b>	<b>31,032</b>	<b>19,433</b>	<b>11,599</b>
<b>Total Long-term Obligations</b>	<b>\$ 323,052</b>	<b>\$ 111,422</b>	<b>\$ (61,813)</b>	<b>\$ 372,661</b>	<b>\$ 47,148</b>	<b>\$ 325,513</b>
<b>Arizona Power Authority:</b>						
Long-term Debt:						
Revenue bonds	\$ 37,530	\$ -	\$ (4,585)	\$ 32,945	\$ 4,810	\$ 28,135
Revenue bond premium and discount	899	-	(236)	663	-	663
Deferred amounts, net	(613)	-	161	(452)	-	(452)
<b>Total Long-term Debt</b>	<b>37,816</b>	<b>-</b>	<b>(4,660)</b>	<b>33,156</b>	<b>4,810</b>	<b>28,346</b>
<b>Total Long-term Obligations</b>	<b>\$ 37,816</b>	<b>\$ -</b>	<b>\$ (4,660)</b>	<b>\$ 33,156</b>	<b>\$ 4,810</b>	<b>\$ 28,346</b>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**2. Universities-Affiliated Component Units**

A summary of bonds payable as of June 30, 2012 include the following (expressed in thousands):

	Final Maturity	Amount
ASU Foundation:		
Series 2004A Variable Rate Revenue Bonds	2034	\$ 22,420
Series 2004B Variable Rate Revenue Bonds	2022	8,740
Series 2003 Lease Revenue Bonds	2034	44,530
ACFFC:		
Series 2011 Tax-Exempt Revenue Refunding Bonds	2024	17,035
Series 2009 Revenue Bonds	2024	39,050
Series 2009A Lease Revenue Refunding Bonds	2034	22,955
Series 2009B Lease Revenue Refunding Bonds	2022	9,980
Series 2008 Revenue Bonds	2028	15,205
Series 2008 Revenue Refunding Bonds	2039	143,975
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	47,750
Series 2005 Tax-Exempt Refunding Bonds	2035	15,860
Series 2003 Tax-Exempt Revenue Bonds	2035	12,825
Deferred Cost of Refunding		(449)
Unamortized Bond Discount		(2,852)
Downtown Phoenix Student Housing:		
Series 2007A&C Revenue Bonds	2042	119,040
Series 2007B Revenue Bonds	2012	185
Series 2007D Tax-Exempt Revenue Bonds	2042	22,700
Unamortized Bond Discount		(1,141)
NACFFC:		
Series 2008 Refunding Bonds	2033	34,590
North Campus Lease Revenue Serial and Term Bonds	2036	11,420
Unamortized Bond Discount		(27)

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

Fiscal Year	ASU Foundation	ACFFC	Downtown Phoenix Student Housing	NACFFC
2013	\$ 1,755	\$ 7,780	\$ 655	\$ 985
2014	1,835	9,270	430	1,060
2015	1,940	9,875	610	1,135
2016	2,035	10,540	810	1,220
2017	2,140	11,285	1,025	1,310
Thereafter	65,985	272,584	137,254	40,300
Total	\$ 75,690	\$ 321,334	\$ 140,784	\$ 46,010

**H. NET ASSETS TRANSFER**

In April 2012, the ASU issued system revenue bonds with part of the proceeds used to defease the Series 2000 ACFFC Student Housing bonds and Series 2001 Mesa Student Housing bonds. The related ground leases between the ASU and ACFFC and the ASU and Mesa Student Housing, LLC were terminated and all assets and liabilities related to these projects were transferred to the ASU.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2012

**I. CONDUIT DEBT**

The purpose of the GADA is to provide cost-effective capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA's bond structure allows it to lower borrowing costs for Arizona's communities by issuing and selling bonds tax-exempt and by sharing financing costs among several borrowers. Principal and interest are payable semi-annually. Loans are secured by the Pledged Collateral Reserve Fund, a requirement that is calculated and deposited by the GADA from the GADA Fund, which is held by the State Treasurer. Some borrowers also have separate, additional reserve funds, which are held by the Trustee. An intercept mechanism of state-shared revenues for political subdivisions enhances the security of the GADA bonds.

In previous years, the State appropriated a total of \$20.0 million to the GADA for the express purpose of securing bonds issued by the GADA. Although issued in the name of the GADA, loans funded through the GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-2259, the GADA's bonds do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net assets of \$10.5 million in the Pledged Collateral Reserve Fund. At June 30, 2012, the total outstanding face value of all bonds issued by the GADA was \$452.3 million.

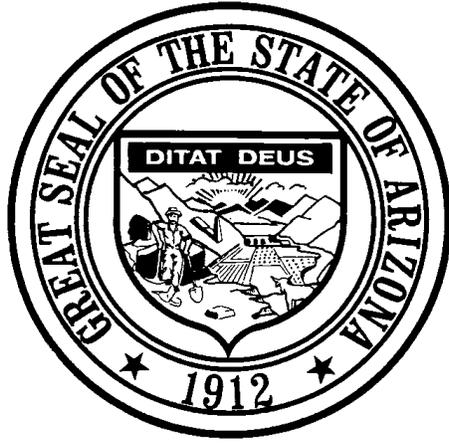
**J. ACCOUNTING RESTATEMENT**

Net assets have been restated as follows (expressed in thousands):

	Component Units
Net Assets, as previously reported	\$ 842,314
Prior period adjustment	(33,802)
Net Assets, as restated	<u>\$ 808,512</u>

**Prior Period Adjustment**

During the year ended June 30, 2012, Rio Nuevo determined that certain capital assets recorded on the books were not legally titled to them. As a result, construction in progress, buildings, equipment, land, and accumulated depreciation were overstated at June 30, 2011. Rio Nuevo also determined that certain construction in progress related to canceled jobs was not written off in a prior year. As a result, construction in progress was overstated in prior years. The effect of the restatement to beginning net assets as of July 1, 2011 was a change from a balance of \$10.531 million to a deficit of (\$23.271) million.



REQUIRED  
SUPPLEMENTARY  
INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	\$ -	\$ 56,337	\$ 56,337
ADMINISTRATIVE ADJUSTMENTS	-	42	42
ADMINISTRATIVE ADJUSTMENTS	-	230,386	230,386
ADMINISTRATIVE ADJUSTMENTS	-	240	240
ADMINISTRATIVE ADJUSTMENTS	-	191,607	191,607
ANNUAL REV PERSONNEL DIV FUND ARS41-764C	-	541,390	541,390
ARCHIVE BUILDING OPERATIONS AND MAINTENANCE	613,326	613,326	501,709
BUILDING RENEWAL FY07-08	7,076	7,076	100
BUILDING RENEWAL FY08-09	4,680	4,680	4,680
BUILDING RENEWAL FY09-10	449,725	449,725	446,116
BUILDING RENEWAL FY10-11	1,561,778	1,561,778	1,061,056
BUILDING RENEWAL FY10-11	627,969	627,969	319,621
BUILDING RENEWAL FY11-12	6,500,000	6,500,000	1,023,094
CAPITOL MALL FIRE SYSTEM REPLACE FY08-09	138,170	138,170	122,439
CASH TRANSFER TO GENERAL FUND	6,500,000	6,500,000	6,500,000
CASH TRANSFER TO GENERAL FUND	18,700	18,700	18,700
CASH TRANSFER TO GENERAL FUND	97,600	97,600	97,600
CASH TRANSFER TO GENERAL FUND	477,600	477,600	477,600
CASH TRANSFER TO GENERAL FUND	78,600	78,600	78,600
COP DEBT SERVICE 2009 3RD SS CH 6 SEC 32	35,354,900	35,354,900	35,354,900
COP DEBT SERVICE 2009 6TH SS CH 4 SEC 2A	13,695,800	13,695,800	13,695,800
CORRECTIONS BUILDING RENEWAL FY11-12	4,630,500	1,966,892	-
COUNTY ATTORNEYS IMMIGRATION ENFORCEMENT FY11-12	1,213,200	1,213,200	1,213,200
DJC HVAC AND ELECTRICAL RENOVATIONS	187,877	187,877	-
ENSCO	2,862,800	1,436,400	1,436,400
HB1464 PERSONNEL REFORM FY98-99	273,045	273,045	-
HRIS CERTIFICATE OF PARTICIPATION	5,550,600	5,550,600	5,550,600
OPERATING LUMP SUM APPROPRIATION	10,950,600	11,365,400	11,155,524
OPERATING LUMP SUM APPROPRIATION	2,310,800	2,379,100	1,908,828
OPERATING LUMP SUM APPROPRIATION	458,700	468,500	91,413
OPERATING LUMP SUM APPROPRIATION	9,998,300	10,029,000	9,318,954
OPERATING LUMP SUM APPROPRIATION	843,469	843,469	80,907
OPERATING LUMP SUM APPROPRIATION	9,225,400	9,327,400	9,209,528
OPERATING LUMP SUM APPROPRIATION	250,000	250,000	183,613
OPERATING LUMP SUM APPROPRIATION	1,137,600	1,138,600	1,086,610
OPERATING LUMP SUM APPROPRIATION - ST BD	224,400	221,000	219,263
PERSONNEL SYSTEM SUPPLEMENTAL	-	154,000	152,091
PRISON CELL LOCKS/DOOR REPLACEMENT GF	88,022	88,022	-
PUBLIC SAFETY COMMUNICATIONS	542,000	527,200	503,957
RELOCATION FY99-00	46,526	46,526	41,649
RELOCATION FY00-01	60,000	60,000	4,699
RELOCATION FY01-02	59,026	59,026	-
RELOCATION FY02-03	58,149	58,149	-
STATE SURPLUS PROPERTY SALES PROCEEDS	1,260,000	1,560,000	1,192,265
STATEWIDE INFO SECURITY AND PRIVACY OFC	861,500	861,500	835,247
UTILITIES	625,700	625,700	625,700
UTILITIES	649,404	649,404	9,595
UTILITIES	7,349,900	7,349,900	6,336,897
<b>ADMINISTRATIVE HEARINGS, OFFICE OF</b>			
OPERATING LUMP SUM APPROPRIATION	908,200	839,600	839,600
OPERATING LUMP SUM APPROPRIATION	14,500	14,500	14,500

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>AGRICULTURE, ARIZONA DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	18,421	18,421
AGRICULTURE CONSULTING AND TRAINING PARI-MUTUEL	128,500	128,500	128,500
AGRICULTURAL EMPLOYMENT RELATIONS BOARD	23,300	23,300	23,300
ANIMAL DAMAGE CONTROL	65,000	65,000	65,000
OFFSITE NUCLEAR EMERGENCY RESPONSE PLANS	-	92,113	92,113
OPERATING LUMP SUM APPROPRIATION	8,412,300	7,803,200	7,801,822
RED IMPORTED FIRE ANT	23,200	23,200	23,200
<b>AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM</b>			
ADMINISTRATIVE ADJUSTMENTS	-	13,201,499	13,201,499
ADMINISTRATIVE ADJUSTMENTS	-	3,071,015	3,071,015
ADMINISTRATIVE ADJUSTMENTS	-	779,325	779,325
ADMINISTRATIVE ADJUSTMENTS	-	12,054,284	12,054,284
ALTCS SERVICES	172,812,200	172,812,200	172,812,200
ALTCS SERVICES	13,916,000	28,125,800	24,832,192
ALTCS SERVICES	436,700	436,700	132,926
ALTCS SERVICES	1,057,664,100	1,046,664,100	969,413,770
CHILDREN'S REHABILITATIVE SERVICES	73,670,800	81,356,891	81,356,891
CHILDREN'S REHABILITATIVE SERVICES	45,200	45,200	10,723
CHILDREN'S REHABILITATIVE SERVICES	36,410,600	40,166,807	40,166,806
CHIP - SERVICES	7,524,800	6,690,300	6,489,645
CHIP - SERVICES	28,543,000	25,235,000	24,582,139
DES ELIGIBILITY	25,754,700	27,970,100	24,715,276
DES ELIGIBILITY	28,782,800	28,737,200	25,196,183
DISPROPORTIONATE SHARE PAYMENTS	3,114,700	3,114,700	-
DISPROPORTIONATE SHARE PAYMENTS	10,372,400	10,372,400	4,202,300
HEALTH PLAN PAYMENT DEFERRAL	-	38,334	38,334
MENTAL HEALTH - ADULTS	45,368	45,368	-
NEW AND EXPANDED GRADUATE MED ED PRG FY06-07	958,535	958,535	-
NEW AND EXPANDED GRADUATE MED ED PRG FY06-07	4,494,824	4,494,824	-
OPERATING LUMP SUM APPROPRIATION	28,639,800	28,631,200	27,813,350
OPERATING LUMP SUM APPROPRIATION	114,500	238,600	213,671
OPERATING LUMP SUM APPROPRIATION	45,926,700	45,154,000	39,693,512
OPERATING LUMP SUM APPROPRIATION	1,646,500	2,579,400	1,955,338
PRESCRIPTION DRUG TSF TO HEALTH SERVICES	-	33,900,000	33,900,000
PROP 204 AHCCCS ADMINISTRATION	2,270,800	3,886,300	3,775,163
PROP 204 AHCCCS ADMINISTRATION	4,418,700	5,267,400	4,963,367
PROP 204 DES ELIGIBILITY	17,679,300	14,283,100	13,865,292
PROP 204 DES ELIGIBILITY	17,316,800	17,294,500	9,365,292
PROP 204 DES ELIGIBILITY	3,161,100	3,161,100	3,161,100
PROPOSITION 204 SERVICES	129,893,400	310,933,066	283,317,979
PROPOSITION 204 SERVICES	66,333,600	78,483,600	69,324,502
PROPOSITION 204 SERVICES	1,391,900	1,391,900	956,277
PROPOSITION 204 SERVICES	40,367,900	40,367,900	39,811,592
PROPOSITION 204 SERVICES	649,073,200	1,032,220,600	948,811,883
PROPOSITION 204 SERVICES	108,211,300	108,211,300	101,067,413
RURAL HOSPITAL REIMBURSEMENT	4,613,000	4,613,000	4,613,000
RURAL HOSPITAL REIMBURSEMENT	9,245,100	9,245,100	9,245,100
TRADITIONAL MEDICAID SERVICES	819,300,500	864,003,393	825,144,070
TRADITIONAL MEDICAID SERVICES	87,229,800	156,245,900	133,052,432
TRADITIONAL MEDICAID SERVICES	2,685,500	2,685,500	2,270,285
TRADITIONAL MEDICAID SERVICES	1,985,004,200	2,163,350,709	2,130,017,855
<b>ARIZONA STATE UNIVERSITY</b>			
BIOMEDICAL INFORMATICS	2,056,800	2,056,800	2,056,800

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DOWNTOWN PHOENIX CAMPUS	15,903,500	23,982,100	23,982,100
OPERATING LUMP SUM APPROPRIATION-MAIN	146,205,400	227,350,200	227,350,200
OPERATING LUMP SUM APPROPRIATION-EAST	12,722,400	19,500,300	19,500,300
OPERATING LUMP SUM APPROPRIATION-WEST	23,495,700	34,875,100	34,875,100
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	13,555,000	13,555,000
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT-POLY	-	917,000	917,000
<b>ARTS, ARIZONA COMMISSION ON THE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	10,365	10,365
<b>ATTORNEY GENERAL - DEPARTMENT OF LAW</b>			
ADMINISTRATIVE ADJUSTMENTS	-	232,446	232,446
CASH TRANSFER TO GENERAL FUND	220,600	220,600	220,600
CASH TRANSFER TO GENERAL FUND	384,100	384,100	384,100
LEGAL ARIZONA WORKERS ACT FY07-08	100,000	100,000	-
MILITARY INSTALLATION/PLANNING FY11-12	-	85,000	84,794
OPERATING LUMP SUM APPROPRIATION	5,474,200	5,677,000	5,671,964
OPERATING LUMP SUM APPROPRIATION	13,135,800	13,589,800	12,736,229
OPERATING LUMP SUM APPROPRIATION	17,274,700	17,148,200	17,126,610
STATE GRAND JURY	176,400	176,400	175,214
<b>AUDITOR GENERAL</b>			
OPERATING LUMP SUM APPROPRIATION	16,447,200	16,672,000	13,625,207
OPERATING LUMP SUM APPROPRIATION FY09-10	142,915	142,915	142,915
OPERATING LUMP SUM APPROPRIATION FY10-11	3,145,450	3,145,450	1,818,452
<b>CAPITAL POSTCONVICTION PUBLIC DEFENDER OFFICE, STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	642	642
OPERATING LUMP SUM APPROPRIATION	162,400	168,100	32,893
OPERATING LUMP SUM APPROPRIATION	682,000	709,300	697,829
OPERATING LUMP SUM APPROPRIATION FY10-11	393,829	393,829	393,829
OPERATING LUMP SUM APPROPRIATION FY11-12	3,000,000	3,700,000	3,700,000
<b>CHARTER SCHOOLS, STATE BOARD FOR</b>			
ADMINISTRATIVE ADJUSTMENTS	-	2,861	2,861
OPERATING LUMP SUM APPROPRIATION	813,500	772,800	739,071
<b>COMMERCE, DEPARTMENT OF</b>			
AGRICULTURE PRESERVATION DISTRICT	26,747	26,747	-
COMMERCE ECON DEVELOPMENT COMMISSION FY05-06	866,122	866,122	-
MILITARY INSTALLATION OPERATING FY05-06	6,172	6,172	-
MILITARY INSTALLATION OPERATING FY06-07	5,114	5,114	-
MILITARY INSTALLATION OPERATING FY07-08	6,820	6,820	-
MILITARY INSTALLATION OPERATING FY08-09	813	813	-
MILITARY INSTALLATION OPERATING FY09-10	71	71	-
<b>CORPORATION COMMISSION</b>			
CASH TRANSFER TO GENERAL FUND	1,500	1,500	1,500
OPERATING LUMP SUM APPROPRIATION	622,200	602,200	600,116
OPERATING LUMP SUM APPROPRIATION	51,200	51,800	51,544
RAILROAD WARNING SYSTEMS FY00-01	47,510	47,510	-
<b>CORRECTIONS, STATE DEPARTMENT OF</b>			
BUILDING RENEWAL FUND EXPENDITURES	-	2,663,608	750,622
CASH TRANSFER TO GENERAL FUND	754,400	754,400	754,400
LEAP YEAR COSTS	800,100	800,100	800,100
OPERATING LUMP SUM APPROPRIATION	851,469,400	867,808,000	857,180,395
OPERATING LUMP SUM APPROPRIATION	930,000	930,000	930,000
OPERATING LUMP SUM APPROPRIATION	508,400	526,400	499,356
PRIVATE PRISON PER DIEM	99,139,800	99,139,800	95,801,016
<b>COURT OF APPEALS DIVISION I</b>			
OPERATING LUMP SUM APPROPRIATION - DIVISION I	10,256,200	9,950,000	9,937,109

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>COURT OF APPEALS DIVISION II</b>			
OPERATING LUMP SUM-DIVISION II	4,456,500	4,330,700	4,330,602
<b>DEAF AND BLIND, ARIZONA SCHOOLS FOR THE</b>			
ADMINISTRATION STATEWIDE	4,125,500	4,344,196	4,320,029
ADMINISTRATIVE ADJUSTMENTS	-	1,532,149	1,532,149
PHOENIX DAY SCHOOL FOR THE DEAF	2,102,600	2,691,687	2,209,853
PRESCHOOL AND OUTREACH PROGRAMS	1,067,200	1,536,724	1,369,276
REGIONAL COOPERATIVES	1,072,000	1,048,208	723,618
SCHOOL BUS REPLACEMENT	738,000	738,000	729,170
TUCSON CAMPUS	12,940,100	10,757,485	9,918,815
<b>ECONOMIC SECURITY, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	13,269,405	13,269,405
ADMINISTRATIVE ADJUSTMENTS	-	28,233,900	28,233,900
ADMINISTRATIVE ADJUSTMENTS	-	5,507,430	5,507,430
ADMINISTRATIVE ADJUSTMENTS	-	73,182,034	73,182,034
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	125,640,000	134,714,000	133,408,187
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	2,397,500	2,421,700	1,521,731
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	11,992,000	12,210,500	12,210,368
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	46,308,000	46,612,700	36,019,591
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	39,533,700	43,138,400	35,948,052
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	1,000,000	1,000,000	-
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	79,536,200	68,430,400	57,334,806
ATTORNEY GENERAL LEGAL SERVICES	12,197,600	12,604,500	12,604,500
ATTORNEY GENERAL LEGAL SERVICES	9,643,400	9,746,100	7,786,101
ATTORNEY GENERAL LEGAL SERVICES	222,700	231,200	146,714
ATTORNEY GENERAL LEGAL SERVICES	17,400	18,100	5,548
CASE MANAGEMENT-TITLE XIX	11,076,900	11,482,700	11,482,700
CASE MANAGEMENT-TITLE XIX	38,094,100	42,714,300	37,210,019
CASH TRANSFER TO GENERAL FUND	30,000,000	30,000,000	30,000,000
CCA SLIDING FEE SCALES TANF FY00-99	2,423,734	2,423,734	2,423,734
CHILDREN SUPPORT SERVICES	24,654,400	7,504,400	5,556,111
CHILDREN SUPPORT SERVICES	45,254,100	56,054,100	52,300,953
CPS EMERGENCY AND RESIDENTIAL PLACEMENT	5,778,700	17,778,700	16,283,518
CPS EMERGENCY AND RESIDENTIAL PLACEMENT	16,423,000	16,423,000	13,353,459
DACS ADULT SERVICES	6,924,100	7,924,100	6,653,153
DACS COMMUNITY AND EMERGENCY SERVICES	3,724,000	3,724,000	3,279,151
DACS COORDINATED HOMELESS PROGRAM	873,100	873,100	870,919
DACS COORDINATED HOMELESS PROGRAM	1,649,500	1,649,500	1,459,423
DACS COORDINATED HUNGER PROGRAM	1,254,600	1,254,600	1,142,867
DACS COORDINATED HUNGER PROGRAM	500,000	500,000	447,240
DACS DOMESTIC VIOLENCE PREVENTION	3,283,000	3,283,000	3,252,050
DACS DOMESTIC VIOLENCE PREVENTION	6,620,700	6,620,700	6,248,427
DAY CARE SUBSIDY	2,717,800	717,800	717,800
DAY CARE SUBSIDY	118,678,800	118,678,800	110,158,027
DBME TANF CASH BENEFITS	44,999,400	53,999,400	51,583,491
DBME TRIBAL PASS-THRU FUNDING	4,680,300	4,680,300	4,606,853
DCSE COUNTY PARTICIPATION	8,600,200	8,600,200	6,449,370
DCYF ADOPTION SERVICES FAMILY PRESERV FY05-06	1,000,000	1,000,000	-
DCYF ADOPTION SERVICES (DCFS)	37,942,200	53,942,200	45,251,384
DCYF ADOPTION SERVICES TANF	19,802,400	9,802,400	9,802,400
DCYF FOSTER CARE PLACEMENT-GF	14,239,500	10,739,500	7,161,652
DCYF FOSTER CARE PLACEMENT-TANF	1,898,700	1,898,700	1,898,700
DCYF FOSTER CARE PLACEMENT TANF-SSBG	5,074,400	5,074,400	1,683,126
DCYF INDEPENDENT LIVING MAINT	2,719,300	1,719,300	1,671,584

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DCYF PERMANENT GUARDIANSHIP SUBSIDY	1,743,000	4,343,000	4,343,000
DCYF PERMANENT GUARDIANSHIP SUBSIDY	7,072,300	7,072,300	7,019,387
DDD CASE MANAGEMENT-STATE ONLY	3,887,300	4,012,900	3,989,400
DDD HOME AND COMMUNITY BASED SERVICES STATE ONLY	3,990,300	3,990,300	-
DDD HOME AND COMMUNITY BASED SERVICES STATE ONLY	28,633,500	13,359,500	12,604,241
DDD STATE FUNDED LTC SERVICES	26,530,200	26,532,200	22,421,949
DEERS JOBS	2,000,000	2,000,000	-
HOME AND COMMUNITY BASED SERVICES-TITLE XIX	227,111,200	214,225,300	214,225,300
HOME AND COMMUNITY BASED SVC-TITLE XIX	690,160,000	672,028,900	567,423,115
INSTITUTIONAL SERVICES-TITLE XIX	5,365,000	5,405,600	5,405,600
INSTITUTIONAL SERVICES-TITLE XIX	19,334,900	20,947,100	18,693,536
JOBS	-	100,000	100,000
JOBS	9,894,700	11,894,700	11,894,700
LTC ARIZONA TRAINING PROGRAM AT COOLIDGE	15,691,200	17,113,000	14,774,495
LTC AZ TRAINING PROGRAM COOLIDGE	4,754,200	4,907,000	4,907,000
LTC MEDICAL SERVICES	38,562,900	38,593,800	38,593,800
LTC MEDICAL SERVICES	138,953,600	136,484,500	119,885,697
LTC MEDICARE CLAWBACK PAYMENTS	2,496,900	2,496,900	2,496,900
NAVAJO MULTIPURPOSE FACILITY FY06-07	3,609	3,609	3,609
REHABILITATION SERVICES	3,760,400	2,460,400	2,460,400
SPECIAL SUPPLEMENTAL APPROPRIATION	35,000,000	35,000,000	35,000,000
SPECIAL SUPPLEMENTAL APPROPRIATION	20,000,000	20,000,000	20,000,000
STATEWIDE BUILDING RENEWAL FY10-11	27,000	27,000	27,000
WORKFORCE INVESTMENT ACT SERVICES	51,654,600	51,654,600	42,710,995
<b>EDUCATION, DEPARTMENT OF</b>			
ACHIEVEMENT TESTING	3,230,700	3,222,346	3,222,346
ADDITIONAL STATE AID TO SCHOOLS	351,525,000	351,525,000	305,775,390
BASIC STATE AID DEFERRED PAYMENT FY11-12	952,627,700	952,627,700	952,627,700
BASIC STATE AID ENTITLEMENT	2,095,288,200	2,062,573,400	2,046,724,419
BASIC STATE AID RETIREMENT RATE SHIFT	-	32,714,800	32,714,800
EDUCATION LEARN AND ACCOUNTABILITY-EXPEN	6,620,030	6,620,030	4,120,099
ENGLISH LANGUAGE ACQUISITION	4,069,700	8,006,906	8,006,906
ENGLISH LANGUAGE ACQUISITION FY06-07	272,321	272,321	269,494
ENGLISH LANGUAGE INSTRUCTION	8,791,400	4,791,400	4,791,400
ENGLISH LEARNER INSTRUCTION FY04-05	435,698	435,698	435,698
ENGLISH LEARNER TEACHER FY04-05	660,488	660,488	186,852
MATH AND SCIENCE INITIATIVES FY08-09	2,806	2,806	-
OPERATING LUMP SUM APPROPRIATION-ADMINISTRATION	8,279,300	7,830,275	7,830,275
OPERATING LUMP SUM APPROPRIATION-STATE BOARD	539,700	534,648	534,648
OTHER STATE AID TO DISTRICTS FY07	983,900	983,900	518,025
READING FIRST INITIATIVE FY07-08	97,003	97,003	-
SPECIAL EDUCATION FUND	33,242,100	33,242,100	33,242,100
STATE BLOCK GRANT FOR VOCATIONAL EDUCATION	11,492,700	11,574,225	11,492,700
<b>EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF</b>			
ADMINISTRATION	1,594,700	1,623,600	1,611,218
COCONINO COUNTY CAMPBELL FLOOD FY11-12	-	200,000	5,717
COCONINO COUNTY TWISTER FY10-11	140,155	140,155	3,995
DECEMBER 2010 FLOODING FY10-11	78,731	78,731	12,328
EMERGENCY MANAGEMENT	745,700	740,200	740,200
EUZ701 SEARCH AND RESCUE	238	238	238
EUZ701 SEARCH AND RESCUE	-	315,000	203,167
FEBRUARY 2005 WINTER STORMS FY07-08	31	31	(102,983)
FEBRUARY 2005 WINTER STORMS FY10-11	172	172	172
FEBRUARY 2005 WINTER STORMS FY10-11	-	60,000	24,499

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
GLADIATOR FIRE EMERGENCY	-	10,000	2,823
HAZARD MATERIALS CONTINGENCY FY03-04	3,587	3,587	48
HAZARD MATERIALS CONTINGENCY FY07-08	48,405	48,405	47
HOPI TRIBE FLOODING FY10-11	70,035	70,035	20,068
HORSESHOE TWO FIRE AND MONUMENT FIRE EMERGENCY	99,409	99,409	98,426
JANUARY 2010 WINTER STORM	10,000	10,000	10,000
JANUARY 2010 WINTER STORM FY09-10	94,790	94,790	94,320
JANUARY 2010 WINTER STORM FY09-10	-	1,625,000	1,602,213
LA PAZ/MARICOPA COUNTIES STORM FY01-02	70,245	70,245	(5)
LA PAZ/MARICOPA COUNTIES STORM FY03-04	9,240	9,240	-
MILITARY AFFAIRS	1,481,200	1,354,600	1,347,773
MILITARY AFFAIRS COMMISSION FY10-11	42,529	42,529	2,880
MILITARY AFFAIRS COMMISSION FY10-11	-	90,000	66,782
MONSOON 2010 FLOODING FY10-11	96,200	96,200	96,200
MONSOON 2010 FLOODING FY10-11	-	115,000	71,979
NORTHERN ARIZONA WINTER STORM EMERGENCY	111	111	111
NORTHERN ARIZONA WINTER STORM FY10-11	142,437	142,437	(187,382)
NORTHERN GREENLEE COUNTY FLOODING	-	300,000	269,101
NUCLEAR EMERGENCY MANAGEMENT FUND-GF TSF	-	433,238	433,238
NUCLEAR EMERGENCY MANAGEMENT FUND-BUCKEYE GF TRF	-	69,909	69,909
NUCLEAR EMERGENCY MANAGEMENT FUND-MARICOPA-GF TF	-	501,208	501,208
OFF SITE NUCLEAR EMERGENCY FY91-92	1,708	1,708	-
OPERATION GOOD NEIGHBOR FY05-06	153,035	153,035	(784)
ROOSEVELT COOLING TOWER FY05-06	50,000	50,000	-
SCHULTZ FIRE POST-FIRE FLOOD FY10-11	557,531	557,531	(62,949)
SEDONA FLASH FLOOD FY09-10	33,525	33,525	218
SERVICE CONTRACTS FY10-11	1,215,000	1,215,000	383,239
SUMMER 2006 MONSOONS AND FLOODING FY07-08	91,841	91,841	8,715
SUMMER 2006 MONSOONS AND FLOODING FY07-08	-	225,000	58,954
TOMBSTONE WATERLINE FLOODING	-	50,000	38,048
WALLOW FIRE EMERGENCY	173,173	173,173	170,239
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>			
CASH TRANSFER TO GENERAL FUND	2,589,900	2,589,900	2,589,900
OPERATING LUMP SUM APPROPRIATION	13,200,000	13,171,000	3,249,150
<b>EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	6	6
OPERATING LUMP SUM APPROPRIATION	196,900	193,300	191,193
<b>EQUALIZATION, STATE BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	262	262
OPERATING LUMP SUM APPROPRIATION	667,900	644,900	535,416
<b>EXECUTIVE CLEMENCY, BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	1,666	1,666
OPERATING LUMP SUM APPROPRIATION	886,200	815,600	810,606
<b>FINANCIAL INSTITUTIONS, DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	2,903,100	2,814,300	2,745,082
<b>FIRE, BUILDING AND LIFE SAFETY, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	2,507	2,507
OPERATING LUMP SUM APPROPRIATION	2,014,400	1,746,000	1,745,997
<b>FORESTER, OFFICE OF THE STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	290,700	290,700
ENVIRONMENTAL COUNTY GRANTS	75,000	75,000	75,000
GENERAL FUND TRANSFER TO FIRE SUPPRESSION	-	3,000,000	3,000,000
INMATE FIRE CREWS	700,000	700,000	700,000
OPERATING LUMP SUM APPROPRIATION	2,196,100	2,375,200	2,189,091

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(continued)

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>GENERAL ACCOUNTING OFFICE</b>			
ADDITIONAL PAY PERIOD	79,000,000	-	-
BUDGET STABILIZATION FUND	-	250,000,000	250,000,000
DELAYED BENEFITS	8,632,600	-	-
EQUALIZATION AID - COCHISE	8,048,900	8,048,900	8,048,900
EQUALIZATION AID - GRAHAM	19,345,700	19,345,700	19,345,700
EQUALIZATION AID - NAVAJO	6,451,700	6,451,700	6,451,700
EQUALIZATION AID - YUMA LA PAZ	1,406,600	1,406,600	1,406,600
LEASE PURCHASE ADJUSTMENTS	16,751,500	115,400	-
NAMED CLAIMANTS BILL	-	198,343	198,343
OPERATING STATE AID - COCHISE	5,572,000	5,572,000	5,572,000
OPERATING STATE AID - COCONINO	1,836,000	1,836,000	1,836,000
OPERATING STATE AID - GILA	428,100	428,100	428,100
OPERATING STATE AID - GRAHAM	2,260,000	2,260,000	2,260,000
OPERATING STATE AID - MARICOPA	6,891,200	6,891,200	6,891,200
OPERATING STATE AID - MOHAVE	1,792,200	1,792,200	1,792,200
OPERATING STATE AID - NAVAJO	1,730,100	1,730,100	1,730,100
OPERATING STATE AID - PIMA	7,146,400	7,146,400	7,146,400
OPERATING STATE AID - PINAL	2,086,200	2,086,200	2,086,200
OPERATING STATE AID - YAVAPAI	899,200	899,200	899,200
OPERATING STATE AID - YUMA LA PAZ	2,683,000	2,683,000	2,683,000
RETIREMENT ADJUSTMENT	39,317,700	-	-
RISK MANAGEMENT ADJUSTMENTS	3,918,100	1,700	-
RURAL COUNTY REIMBURSEMENT SUBSIDY	848,800	848,800	848,800
UNCAPTURED PAY SAVING	3,549,500	-	-
WOOLSEY FLOOD DISTRICT	-	32,385	32,385
<b>GEOLOGICAL SURVEY, ARIZONA</b>			
ADMINISTRATIVE ADJUSTMENTS	-	59	59
OPERATING LUMP SUM APPROPRIATION	900,600	886,900	876,179
<b>GOVERNMENT INFORMATION TECHNOLOGY AGENCY</b>			
ADMINISTRATIVE ADJUSTMENTS	-	21,038	21,038
ADMINISTRATIVE ADJUSTMENTS	-	2,683	2,683
<b>GOVERNOR, OFFICE OF THE</b>			
OPERATING LUMP SUM APPROPRIATION-OSPB	1,936,400	1,939,700	1,789,669
OPERATING LUMP SUM APPROPRIATION-OSPB FY09-10	18,687	18,687	18,687
OPERATING LUMP SUM APPROPRIATION-OSPB FY10-11	110,589	110,589	(1,392,977)
OPERATING LUMP SUM APPROPRIATION	6,960,900	6,815,600	6,253,182
OPERATING LUMP SUM APPROPRIATION FY09-10	1,189,888	1,189,888	1,189,888
OPERATING LUMP SUM APPROPRIATION FY10-11	1,277,890	1,277,890	(1,276,160)
<b>HEALTH SERVICES, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	7,430,590	7,430,590
ADMINISTRATIVE ADJUSTMENTS	-	15,139	15,139
ADULT CYSTIC FIBROSIS	105,200	105,200	78,900
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	315,700	319,500	318,500
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	78,245,739	78,108,339	77,306,116
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	11,873,661	11,976,761	-
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	12,699,100	12,791,700	9,485,158
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	7,746,700	7,686,300	7,336,097
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	836,100	854,100	834,794
AIDS REPORTING AND SURVEILLANCE	1,000,000	1,000,000	999,999
ALZHEIMER DISEASE RESEARCH	125,000	125,000	125,000
ASH CORRECTIVE ACTION PLAN SUPPLEMENTAL FY04-05	398,060	398,060	-
BREAST AND CERVICAL CANCER SCREENING	1,346,700	1,346,700	960,046
CASH TRANSFER TO GENERAL FUND	30,500	30,500	30,500

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CASH TRANSFER TO GENERAL FUND	1,426,500	1,426,500	1,426,500
COMMUNITY PLACEMENT TREATMENT	1,130,700	1,130,700	-
COUNTY TUBERCULOSIS PROVIDER CARE AND CONTROL	590,700	590,700	486,278
CRISES SERVICES	14,141,100	14,141,100	14,110,392
HIGH RISK PERINATAL SERVICES	2,093,400	2,093,400	1,654,555
MEDICAID BEHAVIORAL HEALTH - PROP 204	9,351,199	138,800,770	138,800,770
MEDICAID BEHAVIORAL HEALTH - PROP 204	18,932,201	280,917,313	-
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	320,486,455	191,036,884	191,036,884
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	719,237,145	457,252,033	-
MEDICAID SPECIAL EXEMPTION PAYMENTS BHS	14,763,333	14,763,333	-
MEDICAID SPECIAL EXEMPTION PAYMENTS BHS	7,292,067	7,292,067	7,292,067
MEDICARE CLAWBACK PAYMENTS	12,541,500	12,541,500	12,541,500
NON TITLE PRESCRIPTION MEDICATION	40,154,900	40,154,900	37,755,119
OPERATING ASH SUPPLEMENTAL	-	2,500,000	2,500,000
OPERATING LUMP SUM APPROPRIATION	1,587,500	1,245,500	1,244,787
OPERATING LUMP SUM APPROPRIATION	366	366	366
POISON CONTROL CENTER FUNDING	990,000	990,000	666,345
PROP 204 ADMINISTRATION TITLE XIX MATCH	2,131,440	2,131,440	2,131,440
PROP 204 ADMINISTRATION TITLE XIX MATCH	4,315,260	4,315,260	-
REG HA DISPENSERS-AUDIOL PATHOL FY03-04	62,243	62,243	-
RENAL AND NON-RENAL DISEASE MANAGEMENT	198,000	198,000	198,000
SUPPORTED HOUSING	5,324,800	5,324,800	5,215,513
TANF PERINATAL SERVICES FY99-00	47,270	47,270	-
TITLE XIX BASE SUPPLEMENTAL	-	12,300,000	12,300,000
TITLE XIX BASE SUPPLEMENTAL	-	93,535,400	-
TITLE XIX BASE SUPPLEMENTAL	-	33,900,000	33,900,000
<b>HISTORICAL SOCIETY OF ARIZONA, PRESCOTT</b>			
ADMINISTRATIVE ADJUSTMENTS	-	53,157	53,157
OPERATING LUMP SUM APPROPRIATION	683,000	671,900	618,363
<b>HISTORICAL SOCIETY, ARIZONA</b>			
CENTENNIAL MUSEUM	589,700	445,100	445,100
FIELD SERVICES AND GRANTS	65,000	65,000	65,000
OPERATING LUMP SUM APPROPRIATION	2,031,400	2,093,300	2,093,300
PAPAGO PARK MUSEUM	3,175,300	1,625,400	1,625,400
PAPAGO PARK MUSEUM	430,800	-	-
<b>HOUSE OF REPRESENTATIVES</b>			
OPERATING LUMP SUM APPROPRIATION	12,864,900	13,382,700	12,283,959
OPERATING LUMP SUM APPROPRIATION FY07-08	1,387,035	1,387,035	1,387,035
OPERATING LUMP SUM APPROPRIATION FY08-09	2,293,911	293,911	293,911
OPERATING LUMP SUM APPROPRIATION FY09-10	1,097,362	1,097,362	(1,680,946)
OPERATING LUMP SUM APPROPRIATION FY10-11	1,353,546	1,353,546	(405)
<b>INDIAN AFFAIRS, ARIZONA COMMISSION OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	5	5
OPERATING LUMP SUM APPROPRIATION	63,500	55,700	55,350
<b>INSURANCE, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	2,492	2,492
OPERATING LUMP SUM APPROPRIATION	5,449,500	5,341,900	5,195,428
<b>JOINT LEGISLATIVE BUDGET COMMITTEE</b>			
OPERATING LUMP SUM APPROPRIATION FY10-11	2,036,174	2,036,174	1,968,210
OPERATING LUMP SUM APPROPRIATION FY10-11	2,496,700	2,487,900	548
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	1,171,173	1,171,173
CASH TRANSFER TO GENERAL FUND	38,100	38,100	38,100
OPERATING LUMP SUM APPROPRIATION	49,792,500	48,022,400	45,987,460

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(continued)

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION	2,266,900	2,321,400	1,475,205
<b>LAND DEPARTMENT, STATE</b>			
CAP USER FEES	481,200	481,200	481,140
DUE DILIGENCE FUND	500,000	500,000	-
NATURAL RESOURCE CONSERVATION DISTRICTS	390,000	390,000	390,000
OPERATING LUMP SUM APPROPRIATION	377,300	373,500	370,778
RISK MANAGEMENT	-	9,888,400	9,886,600
<b>LAW ENFORCEMENT MERIT SYSTEM COUNCIL</b>			
OPERATING LUMP SUM APPROPRIATION	71,100	72,800	66,166
<b>LEGISLATIVE COUNCIL</b>			
OMBUDSMAN-CITIZENS AID OFFICE FY07-08	3	3	-
OMBUDSMAN-CITIZENS AID OFFICE FY09-10	70,003	70,003	63,348
OMBUDSMAN-CITIZENS AID OFFICE FY10-11	104,305	104,305	9,196
OMBUDSMAN-CITIZENS AID OFFICE FY11-12	537,900	544,431	476,659
OPERATING LUMP SUM APPROPRIATION FY09-10	1	1	-
OPERATING LUMP SUM APPROPRIATION FY10-11	702,812	702,812	52,811
OPERATING LUMP SUM APPROPRIATION FY11-12	4,200,900	4,252,169	3,852,542
STATE ARCHIVES AND HISTORY BUILDING FY07-08	727,639	727,639	521,168
STATE ARCHIVES AND HISTORY BUILDING	406,856	406,856	-
<b>LIBRARY, ARCHIVES, AND PUBLIC RECORDS, ARIZONA STATE</b>			
GRANTS-IN-AID FY09-10	-	-	80,341
HISTORICAL ADVISORY COMMISSION FY06-07	16,262	16,262	16,262
<b>LIQUOR, LICENSES, AND CONTROL, DEPARTMENT OF</b>			
CASH TRANSFER TO GENERAL FUND	286,600	286,600	286,600
IMPROVEMENT OF DATA PROCESSING SYSTEM FY06-07	101,703	101,703	-
OPERATING LUMP SUM APPROPRIATION	2,892,200	2,912,100	2,895,401
<b>MEDICAL STUDENT LOANS, BOARD OF</b>			
MEDICAL STUDENT FINANCIAL ASSISTANCE FY06-07	346,555	346,555	-
MEDICAL STUDENT FINANCIAL ASSISTANCE FY08-09	309,800	309,800	-
MEDICAL STUDENT FINANCIAL ASSISTANCE	67,000	67,000	41,085
MEDICAL STUDENT FINANCIAL ASSISTANCE	20,200	20,200	20,200
<b>MINE INSPECTOR, STATE</b>			
ABANDONED MINES SAFETY FUND DEPOSIT	185,000	188,300	182,080
ADMINISTRATIVE ADJUSTMENTS	-	5,475	5,475
OPERATING LUMP SUM APPROPRIATION	959,500	1,025,700	1,008,218
<b>NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA</b>			
ADMINISTRATIVE ADJUSTMENTS	-	25,040	25,040
OPERATING LUMP SUM APPROPRIATION	135,000	129,500	111,189
<b>NORTHERN ARIZONA UNIVERSITY</b>			
NAU - YUMA	2,999,600	2,984,517	2,984,517
OPERATING LUMP SUM APPROPRIATION	61,680,100	97,367,383	97,367,383
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	5,900,000	5,900,000
TEACHER TRAINING	2,000,000	2,000,000	2,000,000
<b>OCCUPATIONAL SAFETY AND HEALTH REVIEW BOARD</b>			
OPERATING LUMP SUM APPROPRIATION	15,000	15,000	-
<b>PARKS BOARD, ARIZONA STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	12,334	12,334
CASH TRANSFER TO GENERAL FUND	2,090,000	2,090,000	2,090,000
KARTCHNER CAVERNS STATE PARK	1,973,900	1,973,900	1,869,340
OPERATING LUMP SUM APPROPRIATION	6,967,700	7,176,300	6,807,958
<b>PERSONNEL BOARD</b>			
CASH TRANSFER TO GENERAL FUND	2,600	2,600	2,600
OPERATING LUMP SUM APPROPRIATION	376,000	372,000	352,467

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(continued)

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>PIONEERS' HOME, ARIZONA</b>			
OPERATING LUMP SUM APPROPRIATION	1,584,700	1,645,500	1,635,147
<b>POSTSECONDARY EDUCATION, COMMISSION FOR</b>			
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	1,220,800	1,220,800	1,220,800
MATH AND SCIENCE TEACHER INITIATIVE	176,000	176,000	176,000
<b>PUBLIC SAFETY, DEPARTMENT OF</b>			
DPS HEADQUARTERS FIRE ALARM FY07-08	1,428	1,428	1,428
GIITEM	18,417,800	18,713,100	18,447,250
GIITEM GENERAL FUND-COUNTY ASSISTANCE	-	1,000,000	1,000,000
GIITEM IMPACT APPROPRIATION	2,603,400	2,603,400	2,412,967
GIITEM SUBACCOUNT	-	2,090,300	500,000
GIITEM-GANG INTELLIGENCE TEAM ENFORCEMENT FY09-10	15	15	-
GIITEM-GANG INTELLIGENCE TEAM ENFORCEMENT FY10-11	1,726,852	1,726,852	1,516,774
GIITEM-GANG INTELLIGENCE TEAM ENFORCEMENT FY11-12	2,603,400	2,603,400	2,603,400
MICROWAVE COMMUNICATION FY06-07	573,476	573,476	(55,950)
MOTOR VEHICLE FUEL	3,704,200	3,704,200	3,680,863
OPERATING LUMP SUM APPROPRIATION	20,234,100	21,413,700	21,413,700
OPERATING LUMP SUM APPROPRIATION	1,457,800	1,504,800	1,498,500
<b>RACING, ARIZONA DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	3,855	3,855
COUNTY FAIR LIVESTOCK AND AGRICULTURAL	1,779,500	1,779,500	1,779,500
OPERATING LUMP SUM APPROPRIATION	1,063,900	1,035,400	1,035,307
<b>RADIATION REGULATORY AGENCY</b>			
ADMINISTRATIVE ADJUSTMENTS	-	9,399	9,399
NUCLEAR EMERGENCY MANAGEMENT FUND	-	715,952	715,952
OPERATING LUMP SUM APPROPRIATION	500,000	513,700	501,202
OPERATING LUMP SUM APPROPRIATION	773,800	766,600	734,632
<b>REAL ESTATE DEPARTMENT, STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	31,189	31,189
OPERATING LUMP SUM APPROPRIATION	2,987,300	2,735,200	2,626,438
<b>REGENTS, ARIZONA BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	44,000	44,000
ARIZONA TEACHERS INCENTIVE PROGRAM	90,000	90,000	90,000
ARIZONA TRANSFER ARTICULATION SUPPORT SYSTEM	213,700	213,700	213,700
OPERATING LUMP SUM APPROPRIATION	2,383,500	2,420,700	2,420,700
STUDENT FINANCIAL ASSISTANCE	10,041,200	10,041,200	10,041,200
WESTERN INTERSTATE COMMISSION OFFICE	125,000	125,000	125,000
WICHE STUDENT SUBSIDIES	4,106,000	4,106,000	4,052,310
<b>REVENUE, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	65,349	65,349
BRITS OPERATIONAL SUPPORT	5,577,700	5,577,700	5,576,907
CASH TRANSFER TO GENERAL FUND	1,837,500	1,837,500	1,837,500
CASH TRANSFER TO GENERAL FUND	38,000	38,000	38,000
OPERATING LUMP SUM APPROPRIATION	35,217,000	36,925,800	36,618,379
OPERATING LUMP SUM APPROPRIATION	20,892,500	21,395,200	21,266,095
OPERATING LUMP SUM APPROPRIATION	390,600	396,200	344,957
TEMPORARY COLLECTORS	2,914,300	2,914,300	2,880,643
UNCLAIMED PROPERTY ADMINISTRATION/AUDIT	1,770,000	1,770,000	392,486
<b>SCHOOL FACILITIES BOARD</b>			
BUILDING RENEWAL GRANT	2,667,900	14,167,900	14,167,900
NEW SCHOOL FACILITIES DEBT SERVICE	160,105,700	160,105,700	160,105,700
OPERATING LUMP SUM APPROPRIATION	1,410,900	1,353,200	1,283,716
<b>SECRETARY OF STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	38,118	38,118

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CASH TRANSFER TO GENERAL FUND	13,900	13,900	13,900
ELECTION SERVICES	4,453,300	4,453,300	4,260,521
HELP AMERICA VOTE ACT	2,934,200	2,934,700	832,613
HELP AMERICA VOTE ACT FEDERAL FUNDS FY10-11	7,324,197	7,324,197	1,832,976
LIBRARY GRANTS-IN-AID	651,400	651,400	647,962
LITIGATION COSTS	85,000	85,000	1,003
OPERATING LUMP SUM APPROPRIATION	573,700	587,500	584,460
OPERATING LUMP SUM APPROPRIATION	8,100,100	8,283,300	8,113,694
SPECIAL ELECTION FY09-10	1,731,456	1,731,456	-
SPECIAL ELECTION US CONGRESS AZ DIST 8	-	1,900,000	-
STATEWIDE RADIO READING SERVICE FOR BLIND	97,000	97,000	97,000
<b>SENATE</b>			
BORDER SECURITY TRUST FUND	-	275,000	11,333
OPERATING LUMP SUM APPROPRIATION	8,097,600	8,244,100	7,323,692
OPERATING LUMP SUM APPROPRIATION FY10-11	1,134,077	1,134,077	1,134,077
<b>SUPREME COURT</b>			
ADMINISTRATIVE ADJUSTMENTS	-	56	56
ADOA BUILDING RENEWAL FUND FY09-10	1,321	1,321	-
ADULT INTENSIVE PROBATION	10,752,300	10,741,200	10,731,965
ADULT STANDARD PROBATION	13,543,300	13,526,700	13,508,346
AUTOMATION	4,456,500	3,332,600	3,055,196
CASE AND CASH MANAGEMENT SYSTEM	139,400	139,400	-
CASH TRANSFER TO GENERAL FUND	143,400	143,400	143,400
COMMISSION ON JUDICIAL CONDUCT	514,000	509,500	507,141
COUNTY REIMBURSEMENTS	187,900	187,900	187,900
COURT APPOINTED SPECIAL ADVOCATE	96,900	96,900	96,900
DOMESTIC RELATIONS	598,400	593,500	582,607
DRUG COURT	61,322	61,322	-
DRUG COURT	1,013,600	1,013,600	1,013,598
FOSTER CARE REVIEW BOARD	3,294,400	3,276,200	3,269,175
INTERSTATE COMPACT	641,800	641,800	623,098
JUDGES COMPENSATION	7,393,400	7,968,500	7,954,916
JUDICIAL NOMINATION AND PERFORMANCE REVIEW	408,500	404,000	400,394
JUVENILE DIVERSION CONSEQUENCES	9,024,900	9,024,900	9,024,900
JUVENILE FAMILY COUNSELING	660,400	660,400	659,916
JUVENILE INTENSIVE PROBATION	9,177,500	8,946,500	8,905,541
JUVENILE STANDARD PROBATION	4,606,000	4,600,500	4,592,948
JUVENILE TREATMENT SERVICES	22,322,700	22,314,900	22,195,926
MODEL COURT	425,300	425,300	425,300
OPERATING LUMP SUM APPROPRIATION	14,492,500	10,779,500	10,758,668
OPERATING LUMP SUM APPROPRIATION	663,300	688,000	507,526
SPECIAL WATER MASTER	20,000	20,000	19,999
<b>TAX APPEALS, STATE BOARD OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	168	168
OPERATING LUMP SUM APPROPRIATION	256,500	262,100	256,645
<b>TOURISM, OFFICE OF</b>			
CITY OF YUMA - ARIZONA WELCOME CENTER	208,189	208,189	-
<b>TRANSPORTATION, DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	54,600	51,300	50,903
<b>TREASURER, STATE</b>			
ADMINISTRATIVE ADJUSTMENTS	-	36,086	36,086
CASH TRANSFER TO GENERAL FUND	8,900	8,900	8,900
COMMUNITY COLLEGE REIMBURSEMENT ARS 15-1469.01	-	3,051,688	3,051,688
CORPORATE INCOME TAX TRANSFER	-	7,000,000	7,000,000

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
JUSTICE OF THE PEACE SALARIES	1,115,100	1,115,100	1,000,831
OPERATING LUMP SUM APPROPRIATION	2,504,300	2,584,100	2,557,645
OPERATING LUMP SUM APPROPRIATION	88,300	92,700	92,700
RETIREMENT STUDY PSPRS	-	50,000	-
<b>UNIVERSITY OF ARIZONA</b>			
AGRICULTURE	30,661,900	29,888,800	29,888,800
ARIZONA COOPERATIVE EXTENSION	11,223,100	11,023,100	11,023,100
CLINICAL RURAL ROTATION	373,300	364,800	364,800
CLINICAL TEACHING SUPPORT	8,587,000	8,587,000	8,587,000
LIVER RESEARCH INSTITUTE	477,300	466,400	466,400
OPERATING LUMP SUM APPROPRIATION - HSC	17,197,400	34,558,800	34,558,800
OPERATING LUMP SUM APPROPRIATION - MAIN	89,166,400	168,160,900	168,160,900
PHOENIX MEDICAL CAMPUS	10,590,800	10,533,400	10,533,400
RESEARCH INFRASTRUCTURE FACILITIES	-	14,253,000	14,253,000
SIERRA VISTA CAMPUS	3,151,100	3,062,100	3,062,100
TELEMEDICINE NETWORK	1,937,700	1,887,300	1,887,300
<b>VETERANS' SERVICES, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	2,985	2,985
ARIZONA STATE VETERANS' HOME	1,853,600	1,853,600	1,849,730
MILITARY FAMILY RELIEF FUND	15,291	15,291	-
OPERATING LUMP SUM APPROPRIATION	2,169,900	2,161,725	2,150,099
SOUTHERN ARIZONA CEMETERY	280,000	279,428	272,548
TUCSON VETERAN HOME FY09-10	1,416,612	1,416,612	1,221,068
VETERANS BENEFIT COUNSELING	2,942,600	2,929,847	2,886,065
<b>WATER RESOURCES, DEPARTMENT OF</b>			
ADJUDICATION SUPPORT	1,245,600	1,219,051	1,192,289
ADMINISTRATIVE ADJUSTMENTS	-	33,569	33,569
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	1,548,900	1,515,929	1,504,686
AUTOMATED GROUNDWATER MONITORING	406,400	397,749	364,298
CONSERVATION AND DROUGHT PROGRAM	406,400	397,749	397,733
OPERATING LUMP SUM APPROPRIATION	1,486,200	1,227,096	1,214,333
RURAL WATER STUDIES	1,163,800	1,139,026	1,117,025
<b>WEIGHTS AND MEASURES, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	-	1,867	1,867
GENERAL SERVICES	1,207,500	1,195,400	1,180,523
<b>TOTAL GENERAL FUND BUDGETARY EXPENDITURES BEFORE ADJUSTMENTS</b>	<b>14,866,405,045</b>	<b>16,489,906,026</b>	<b>14,890,038,403</b>
<b>Less:</b>			
Department of Health Services' appropriations for Medicaid Behavioral Health, Medicaid Special Exemption, and Title XIX State Match and Base Supplemental that were duplicate expenditure authorizations	(769,121,600)	(862,760,100)	-
<b>TOTAL GENERAL FUND BUDGETARY EXPENDITURES AFTER ADJUSTMENTS</b>	<b>\$ 14,097,283,445</b>	<b>\$ 15,627,145,926</b>	<b>\$ 14,890,038,403</b>

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>TRANSPORTATION, DEPARTMENT OF</b>			
ADMINISTRATIVE ADJUSTMENTS	\$ -	\$ 64,608	\$ 64,608
ADMINISTRATIVE ADJUSTMENTS	-	321	321
ADMINISTRATIVE ADJUSTMENTS	-	2,108	2,108
AIRPORT PLANNING AND DEVELOPMENT FY07-08	8,665,445	8,665,445	-
AIRPORT PLANNING AND DEVELOPMENT FY08-09	16,067,335	16,067,335	-
AIRPORT PLANNING AND DEVELOPMENT FY09-10	17,671,756	17,671,756	-
AIRPORT PLANNING AND DEVELOPMENT FY10-11	10,765,318	10,765,318	-
AIRPORT PLANNING AND DEVELOPMENT FY11-12	22,300,400	22,300,400	9,037,765
ALT TRUCK ROUTE-DOUGLAS CHINO RD FY03-04	250,000	250,000	-
ASBESTOS AND LEAD INSPECTIONS FY01-02	94,798	94,798	-
ASBESTOS AND LEAD INSPECTIONS FY02-03	589,466	589,466	-
ASPHALT STORAGE TANKS FY06-07	112,816	112,816	-
ATTORNEY GENERAL LEGAL SERVICES	2,895,600	2,895,600	2,895,600
BUILDING RENEWAL FY04-05	8,317	8,317	-
BUILDING RENEWAL FY06-07	129,000	129,000	129,000
BUILDING RENEWAL FY08-09	1,449	1,449	1,449
BUILDING RENEWAL FY08-09	560	560	560
BUILDING RENEWAL FY09-10	3,000	3,000	3,000
BUILDING RENEWAL FY09-10	13,823	13,823	13,823
BUILDING RENEWAL FY10-11	13,416	13,416	13,416
BUILDING RENEWAL FY10-11	671,500	671,500	663,634
BUILDING RENEWAL FY11-12	50,000	50,000	48,305
BUILDING RENEWAL FY11-12	1,000,000	1,000,000	294,314
CASH TRANSFER TO GENERAL FUND	717,700	717,700	717,700
CASH TRANSFER TO GENERAL FUND	1,100	1,100	1,100
CASH TRANSFER TO WMA	320,500	320,500	317,500
DE-ICER BUILDINGS FY06-07	11,434	11,434	-
FRAUD INVESTIGATION	753,900	753,900	753,788
GRAND CANYON AIRPORT MODULAR HOUSING FY06-07	4,726	4,726	-
GRAND CANYON AIRPORT RESTROOM RENOVATION FY07-08	155,559	155,559	-
HIGHWAY MAINTENANCE FY10-11	19,082,988	19,082,988	5,653,796
HIGHWAY MAINTENANCE FY10-11	125,993,100	128,293,100	119,104,205
HIGHWAY MAINTENANCE FY10-11	6,146	6,146	-
HIGHWAY MAINTENANCE FY10-11	562,500	562,500	559,723
HURF TO DPS TRANSFER - DOUBLE LOAD	120,736,900	123,210,600	123,210,600
MOTOR CARRIER TOWING REGULATION FY04-05	11,108	11,108	-
MVD SECURITY ENHANCEMENT ISSUES FY02-03	715,687	715,687	-
NEW THIRD PARTY FUNDING	78,700	78,700	78,240
NEW THIRD PARTY FUNDING	198,800	198,800	198,271
NEW THIRD PARTY FUNDING	662,600	662,600	661,102
OPERATING LUMP SUM APPROPRIATION	1,592,700	1,628,600	1,612,735
OPERATING LUMP SUM APPROPRIATION	109,880,400	111,912,500	111,742,774
OPERATING LUMP SUM APPROPRIATION	1,303,700	1,336,900	1,335,844
OPERATING LUMP SUM APPROPRIATION	72,900	75,400	53,383
OPERATING LUMP SUM APPROPRIATION	1,370,500	1,415,400	1,400,979
OPERATING LUMP SUM APPROPRIATION	867,600	903,900	898,581
OPERATING LUMP SUM APPROPRIATION	148,100	153,100	146,900
OPERATING LUMP SUM APPROPRIATION	86,234,100	88,691,000	87,920,116
SEF TO DPS TRANSFER - DOUBLE LOAD	1,518,800	1,553,300	1,553,300
SPRINKLERS/FIRE ALARMS FY05-06	174,496	174,496	167,886

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, 2012  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
STATEWIDE HIGHWAY CONSTRUCTION FY07-08	1,476	1,476	-
STATEWIDE HIGHWAY CONSTRUCTION FY08-09	20,031,322	20,031,322	-
STATEWIDE HIGHWAY CONSTRUCTION FY09-10	75,207,460	75,207,460	-
STATEWIDE HIGHWAY CONSTRUCTION FY10-11	510,131	510,131	-
STATEWIDE HIGHWAY CONSTRUCTION FY11-12	209,978,000	209,978,000	169,387,422
SURPRISE MOTOR VEHICLE DIVISION FY06-07	892,410	892,410	-
<b>TOTAL TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND BUDGETARY EXPENDITURES</b>	<b>\$ 861,101,542</b>	<b>\$ 870,623,579</b>	<b>\$ 640,643,848</b>

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES  
 JUNE 30, 2012

**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, 2011 that affect available appropriations during fiscal year 2012. The final budget represents any appropriation bills passed during fiscal year 2012 for fiscal year 2012 plus the original budget. Appropriation bills passed after the end of fiscal year 2012 for fiscal year 2012 would also be included in the final budget.

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

	<b>General Fund</b>	<b>Transportation &amp; Aviation Planning, Highway Maintenance &amp; Safety Fund</b>
<b>Uses/outflows of resources</b>		
Actual expenditure amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$ 14,890,038	\$ 640,644
Differences – budget to GAAP:		
Increase (decrease) in unpaid incurred expenditures from fiscal year end 2011 to fiscal year end 2012.	(41,665)	453,441
(Decrease) in unpaid payroll expenditures from fiscal year end 2011 to fiscal year end 2012. For budgetary reporting, final June 2011 payroll expenditures were charged to fiscal year 2012 budget and final June 2012 payroll expenditures were charged to fiscal year 2013 budget.	(50,970)	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,012,834	-
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.	455,923	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	211	7,955
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2012.	4,671,111	1,534,663
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(838,161)	(331,701)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 20,099,321	\$ 2,305,002

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

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES**  
JUNE 30, 2012

**B. BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

The State budgets on an annual basis. The budget format used by the State Legislature determines how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated 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 direct funds to its activities at its own discretion, without further Legislative or Executive Branch review.

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

During the fiscal year, \$1.6 billion in supplemental appropriations, net of mid-year reversions and adjustments, were provided to the General Fund. The Transportation and Aviation Planning, Highway Maintenance and Safety Fund appropriations increased by \$9.5 million. These amounts are included in the Budgetary Comparison Schedules.

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

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

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

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES**  
JUNE 30, 2012

All expenditures of the State’s money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency’s total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the \$457.3 million Department of Health Services’ Medicaid Behavioral Health - Traditional on **page 142**. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to “actual” expenditure amounts, duplicate expenditure authorizations have been eliminated from the General Fund’s budget (appropriation) totals on **page 146**.

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
JUNE 30, 2012

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,751 center lane miles (21,440 travel lane miles) of roads and 4,754 bridges that the State is responsible to maintain.

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

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

As adopted by the State Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadways and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2012 and beyond was adopted by the Transportation Board on June 17, 2011.

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 the American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement 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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2012

the “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 2012, an overall rating of 3.69 was achieved, as shown in the following graph:

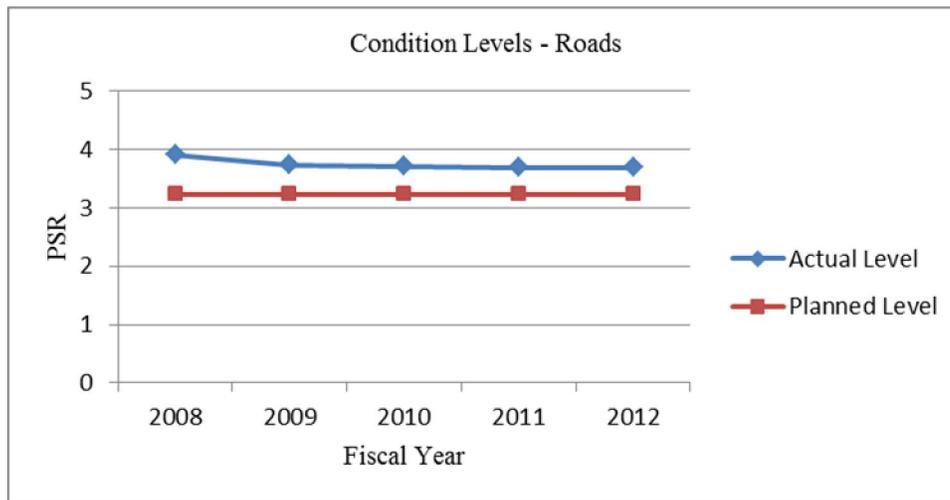


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2008 through 2012 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2008	\$260.7	\$247.9
2009	\$264.4	\$236.0
2010	\$227.4	\$220.9
2011	\$265.7	\$373.4
2012	\$261.9	\$373.6

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2012

**Bridges**

Bridges constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2012, the State owned and maintained 4,754 bridges with an approximate total deck area of 47,959,739 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

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

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

Management of the bridge inventory is a major function of the ADOT’s Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2012, the CRI was computed at 93.1%.

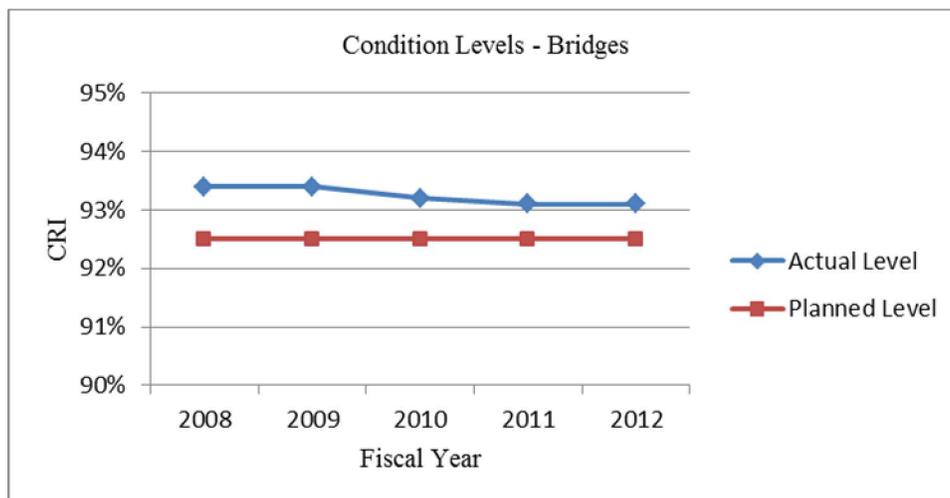


Figure 2

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2012

Bridges represent a major public investment and their inspection and maintenance is an essential function of the State in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 57% of the bridges in the State were constructed prior to the 1970s while only 13% have been constructed since 2000.

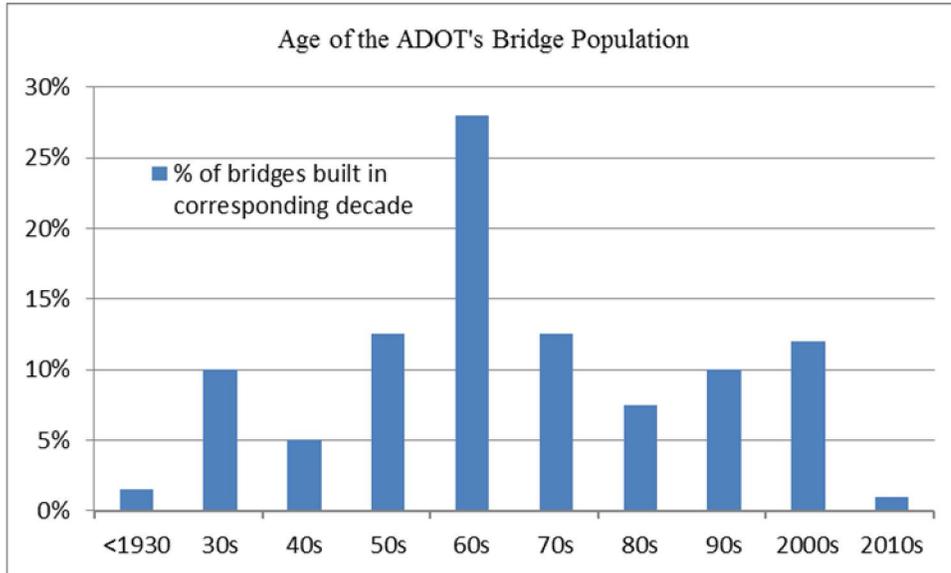


Figure 3

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2008 through 2012 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2008	\$13.4	\$18.1
2009	\$14.3	\$17.3
2010	\$16.1	\$22.4
2011	\$11.8	\$26.0
2012	\$12.5	\$20.6

Actual expenditures on bridge preservation have exceeded estimated expenditures in each of the past five fiscal years. These higher-than-estimated expenditures have been the result of an ongoing effort to maintain the ability of an older inventory of bridges to serve a growing population. This trend explains why the higher expenditures have occurred simultaneously with a decline, during the same period, of the bridge network's CRI, as described above.

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**AGENT BENEFIT PLANS' FUNDING PROGRESS**  
 JUNE 30, 2012

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded)
							AAL as a Percentage of Covered Payroll
PSPRS	6/30/2012	\$ 522,980	\$ 1,043,064	\$ (520,084)	50.1%	\$ 82,352	(631.5)%
	6/30/2011	545,586	965,288	(419,702)	56.5%	84,347	(497.6)%
	6/30/2010	554,211	891,215	(337,004)	62.2%	92,791	(363.2)%
CORP	6/30/2012	888,879	1,244,672	(355,793)	71.4%	370,041	(96.1)%
	6/30/2011	872,133	1,120,722	(248,589)	77.8%	361,900	(68.7)%
	6/30/2010	838,549	980,676	(142,127)	85.5%	363,999	(39.0)%

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded)
							AAL as a Percentage of Covered Payroll
PSPRS	6/30/2012	-	\$ 29,183	\$ (29,183)	0.0%	\$ 82,352	(35.4)%
	6/30/2011	-	29,200	(29,200)	0.0%	84,347	(34.6)%
	6/30/2010	-	26,846	(26,846)	0.0%	92,791	(28.9)%
CORP	6/30/2012	-	58,596	(58,596)	0.0%	370,041	(15.8)%
	6/30/2011	-	59,971	(59,971)	0.0%	361,900	(16.6)%
	6/30/2010	-	46,868	(46,868)	0.0%	363,999	(12.9)%

**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**

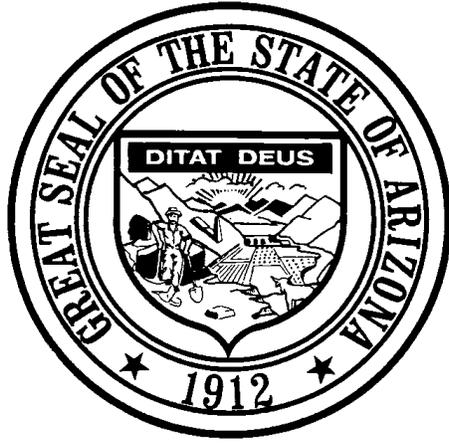
*Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Pension Trust Funds or Component Units).*

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ 937	\$ -	\$ -	\$ 937
Cash and pooled investments with State Treasurer	611,506	1,064	-	612,570
Collateral investment pool	20,031	-	992	21,023
Receivables, net of allowances:				
Taxes	67,460	-	-	67,460
Interest	1	-	-	1
Other	25,392	-	-	25,392
Due from U.S. Government	14,335	-	-	14,335
Due from other Funds	22,454	3,750	268	26,472
Inventories, at cost	12	-	-	12
Restricted assets:				
Cash and pooled investments with State Treasurer	447,662	42,825	432,040	922,527
Cash held by trustee	-	7,708	2,348	10,056
<b>Total Assets</b>	<b>\$ 1,209,790</b>	<b>\$ 55,347</b>	<b>\$ 435,648</b>	<b>\$ 1,700,785</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other current liabilities	\$ 62,421	\$ 285	\$ 30	\$ 62,736
Accrued liabilities	43,585	3	10	43,598
Obligations under securities loan agreements	20,031	-	992	21,023
Due to local governments	104,373	-	-	104,373
Due to others	19,845	-	-	19,845
Due to other Funds	26,243	-	3,829	30,072
Unavailable deferred revenue	739	-	-	739
Unearned deferred revenue	510	-	-	510
<b>Total Liabilities</b>	<b>277,747</b>	<b>288</b>	<b>4,861</b>	<b>282,896</b>
Fund Balances:				
Restricted	528,476	55,059	430,787	1,014,322
Committed	403,567	-	-	403,567
<b>Total Fund Balances</b>	<b>932,043</b>	<b>55,059</b>	<b>430,787</b>	<b>1,417,889</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,209,790</b>	<b>\$ 55,347</b>	<b>\$ 435,648</b>	<b>\$ 1,700,785</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>REVENUES</b>				
Taxes:				
Sales	\$ 418,094	\$ 65,810	\$ -	\$ 483,904
Income	75	-	-	75
Tobacco	253,531	-	-	253,531
Property	2,000	-	-	2,000
Motor vehicle and fuel	161,230	-	-	161,230
Other	96,751	-	-	96,751
Intergovernmental	75,446	-	-	75,446
Licenses, fees, and permits	294,656	-	-	294,656
Earnings on investments	49,189	1,484	4,050	54,723
Sales and charges for services	19,741	-	-	19,741
Fines, forfeitures, and penalties	137,384	-	-	137,384
Gaming	79,479	-	-	79,479
Other	21,645	411	-	22,056
Total Revenues	<u>1,609,221</u>	<u>67,705</u>	<u>4,050</u>	<u>1,680,976</u>
<b>EXPENDITURES</b>				
Current:				
General government	108,653	-	-	108,653
Health and welfare	249,887	-	-	249,887
Inspection and regulation	109,960	-	-	109,960
Education	625,995	-	-	625,995
Protection and safety	234,937	-	-	234,937
Transportation	-	-	21,050	21,050
Natural resources	112,976	-	-	112,976
Intergovernmental revenue sharing	10	-	-	10
Debt service:				
Principal	8,849	262,685	-	271,534
Interest and other fiscal charges	17,143	251,157	1,124	269,424
Capital outlay	10,677	-	150,228	160,905
Total Expenditures	<u>1,479,087</u>	<u>513,842</u>	<u>172,402</u>	<u>2,165,331</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>130,134</u>	<u>(446,137)</u>	<u>(168,352)</u>	<u>(484,355)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	63,671	469,534	-	533,205
Transfers out	(118,708)	(280)	(5,661)	(124,649)
Bonds issued	-	-	259,460	259,460
Refunding bonds issued	-	455,900	-	455,900
Refunding GANs issued	-	43,825	-	43,825
Payment to refunded bond escrow agent	-	(560,228)	-	(560,228)
Premium on debt issued	-	62,314	28,439	90,753
Total Other Financing Sources (Uses)	<u>(55,037)</u>	<u>471,065</u>	<u>282,238</u>	<u>698,266</u>
Net Change in Fund Balances	<u>75,097</u>	<u>24,928</u>	<u>113,886</u>	<u>213,911</u>
Fund Balances - Beginning	<u>856,946</u>	<u>30,131</u>	<u>316,901</u>	<u>1,203,978</u>
Fund Balances - Ending	<u>\$ 932,043</u>	<u>\$ 55,059</u>	<u>\$ 430,787</u>	<u>\$ 1,417,889</u>



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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
<b>ASSETS</b>						
Cash	\$ 886	\$ -	\$ -	\$ -	\$ -	\$ 21
Cash and pooled investments with State Treasurer	78,382	60,988	54,336	19,964	84,322	86,611
Collateral investment pool	-	1,451	-	17,102	1,478	-
Receivables, net of allowances:						
Taxes	5,166	-	847	13,783	-	-
Interest	-	-	1	-	-	-
Other	13	1	7,658	-	6	3,140
Due from U.S. Government	-	-	14,313	22	-	-
Due from other Funds	4,148	9,458	1,543	337	1,374	1,988
Inventories, at cost	12	-	-	-	-	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	724	446,938	-	-
<b>Total Assets</b>	<b>\$ 88,607</b>	<b>\$ 71,898</b>	<b>\$ 79,422</b>	<b>\$ 498,146</b>	<b>\$ 87,180</b>	<b>\$ 91,760</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and other current liabilities	\$ 7,467	\$ 3,083	\$ 2,250	\$ 725	\$ 3,111	\$ 1,740
Accrued liabilities	3,462	314	36,409	267	437	1,550
Obligations under securities loan agreements	-	1,451	-	17,102	1,478	-
Due to local governments	-	-	-	-	-	-
Due to others	17	-	-	19,599	-	200
Due to other Funds	1,327	52	552	14,304	86	9,665
Unavailable deferred revenue	-	-	739	-	-	-
Unearned deferred revenue	-	-	510	-	-	-
<b>Total Liabilities</b>	<b>12,273</b>	<b>4,900</b>	<b>40,460</b>	<b>51,997</b>	<b>5,112</b>	<b>13,155</b>
Fund Balances:						
Restricted	-	-	8,908	446,149	-	-
Committed	76,334	66,998	30,054	-	82,068	78,605
<b>Total Fund Balances</b>	<b>76,334</b>	<b>66,998</b>	<b>38,962</b>	<b>446,149</b>	<b>82,068</b>	<b>78,605</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 88,607</b>	<b>\$ 71,898</b>	<b>\$ 79,422</b>	<b>\$ 498,146</b>	<b>\$ 87,180</b>	<b>\$ 91,760</b>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 937
31,848	7,679	25,129	129,199	13,840	19,208	611,506
-	-	-	-	-	-	20,031
-	-	-	47,664	-	-	67,460
-	-	-	-	-	-	1
2,072	-	7	12,495	-	-	25,392
-	-	-	-	-	-	14,335
200	382	-	3,024	-	-	22,454
-	-	-	-	-	-	12
-	-	-	-	-	-	447,662
<u>\$ 34,150</u>	<u>\$ 8,061</u>	<u>\$ 25,136</u>	<u>\$ 192,382</u>	<u>\$ 13,840</u>	<u>\$ 19,208</u>	<u>\$ 1,209,790</u>

\$ 1,498	\$ 147	\$ 17	\$ 42,019	\$ 364	\$ -	\$ 62,421
903	46	68	94	19	16	43,585
-	-	-	-	-	-	20,031
-	-	-	104,373	-	-	104,373
29	-	-	-	-	-	19,845
244	6	1	-	6	-	26,243
-	-	-	-	-	-	739
-	-	-	-	-	-	510
<u>2,674</u>	<u>199</u>	<u>86</u>	<u>146,486</u>	<u>389</u>	<u>16</u>	<u>277,747</u>
6,362	-	1,969	45,896	-	19,192	528,476
25,114	7,862	23,081	-	13,451	-	403,567
<u>31,476</u>	<u>7,862</u>	<u>25,050</u>	<u>45,896</u>	<u>13,451</u>	<u>19,192</u>	<u>932,043</u>
<u>\$ 34,150</u>	<u>\$ 8,061</u>	<u>\$ 25,136</u>	<u>\$ 192,382</u>	<u>\$ 13,840</u>	<u>\$ 19,208</u>	<u>\$ 1,209,790</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
<b>REVENUES</b>						
Taxes:						
Sales	\$ 16,518	\$ -	\$ 4,779	\$ -	\$ -	\$ -
Income	-	-	-	-	-	-
Tobacco	5,484	-	8,006	240,041	-	-
Property	-	-	2,000	-	-	-
Motor vehicle and fuel	127,312	26,676	-	-	-	318
Other	52,384	2,546	-	1	-	41,820
Intergovernmental	20,130	-	22,430	430	2,192	167
Licenses, fees, and permits	21,697	77,499	16,558	-	27,904	94,192
Earnings on investments	226	331	82	5,517	431	109
Sales and charges for services	10,893	-	3,002	-	466	865
Fines, forfeitures, and penalties	65,992	930	11,547	8	48,021	1,480
Gaming	-	-	21,215	-	-	9,774
Other	2,468	85	2,534	-	1,343	2,597
Total Revenues	<u>323,104</u>	<u>108,067</u>	<u>92,153</u>	<u>245,997</u>	<u>80,357</u>	<u>151,322</u>
<b>EXPENDITURES</b>						
Current:						
General government	24,170	1,100	2,819	667	57,959	1,772
Health and welfare	-	56,170	75,567	111,062	-	7,088
Inspection and regulation	-	1,379	-	-	18	108,563
Education	-	-	-	141,355	-	-
Protection and safety	234,937	-	-	-	-	-
Natural resources	25,027	433	-	-	-	-
Intergovernmental revenue sharing	-	-	-	-	-	10
Debt service:						
Principal	8,083	-	-	-	-	-
Interest and other fiscal charges	16,300	1	-	-	1	-
Capital outlay	8,113	47	144	-	370	505
Total Expenditures	<u>316,630</u>	<u>59,130</u>	<u>78,530</u>	<u>253,084</u>	<u>58,348</u>	<u>117,938</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,474</u>	<u>48,937</u>	<u>13,623</u>	<u>(7,087)</u>	<u>22,009</u>	<u>33,384</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	31,303	7,001	4,882	14	4,061	2,710
Transfers out	(37,030)	(25,932)	(6,731)	(959)	(7,717)	(22,426)
Total Other Financing Sources (Uses)	<u>(5,727)</u>	<u>(18,931)</u>	<u>(1,849)</u>	<u>(945)</u>	<u>(3,656)</u>	<u>(19,716)</u>
Net Change in Fund Balances	747	30,006	11,774	(8,032)	18,353	13,668
Fund Balances - Beginning	75,587	36,992	27,188	454,181	63,715	64,937
Fund Balances - Ending	<u>\$ 76,334</u>	<u>\$ 66,998</u>	<u>\$ 38,962</u>	<u>\$ 446,149</u>	<u>\$ 82,068</u>	<u>\$ 78,605</u>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ 396,797	\$ -	\$ -	\$ 418,094
-	-	-	75	-	-	75
-	-	-	-	-	-	253,531
-	-	-	-	-	-	2,000
888	5,796	-	240	-	-	161,230
-	-	-	-	-	-	96,751
26,453	-	2,517	1,127	-	-	75,446
34,147	3,956	4,163	2,502	12,038	-	294,656
267	51	246	41,812	117	-	49,189
2,811	-	138	1,556	10	-	19,741
171	-	-	-	-	9,235	137,384
6,061	-	-	42,429	-	-	79,479
986	145	2,893	254	1,889	6,451	21,645
<u>71,784</u>	<u>9,948</u>	<u>9,957</u>	<u>486,792</u>	<u>14,054</u>	<u>15,686</u>	<u>1,609,221</u>
-	-	16,813	-	-	3,353	108,653
-	-	-	-	-	-	249,887
-	-	-	-	-	-	109,960
-	-	-	484,640	-	-	625,995
-	-	-	-	-	-	234,937
67,619	7,942	-	-	11,955	-	112,976
-	-	-	-	-	-	10
766	-	-	-	-	-	8,849
841	-	-	-	-	-	17,143
668	283	4	320	223	-	10,677
<u>69,894</u>	<u>8,225</u>	<u>16,817</u>	<u>484,960</u>	<u>12,178</u>	<u>3,353</u>	<u>1,479,087</u>
<u>1,890</u>	<u>1,723</u>	<u>(6,860)</u>	<u>1,832</u>	<u>1,876</u>	<u>12,333</u>	<u>130,134</u>
10,004	1	-	3,395	300	-	63,671
(3,672)	(277)	(2,717)	(568)	(679)	(10,000)	(118,708)
<u>6,332</u>	<u>(276)</u>	<u>(2,717)</u>	<u>2,827</u>	<u>(379)</u>	<u>(10,000)</u>	<u>(55,037)</u>
8,222	1,447	(9,577)	4,659	1,497	2,333	75,097
<u>23,254</u>	<u>6,415</u>	<u>34,627</u>	<u>41,237</u>	<u>11,954</u>	<u>16,859</u>	<u>856,946</u>
<u>\$ 31,476</u>	<u>\$ 7,862</u>	<u>\$ 25,050</u>	<u>\$ 45,896</u>	<u>\$ 13,451</u>	<u>\$ 19,192</u>	<u>\$ 932,043</u>

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ACCOUNTANCY, ARIZONA STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	\$ 1,595	\$ 1,595
CASH TRANSFER TO GENERAL FUND	15,500	15,500
OPERATING LUMP SUM APPROPRIATION	1,930,700	1,647,105
<b>ACUPUNCTURE BOARD OF EXAMINERS</b>		
ADMINISTRATIVE ADJUSTMENTS	143	143
CASH TRANSFER TO GENERAL FUND	1,900	1,900
OPERATING LUMP SUM APPROPRIATION	130,300	95,079
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	1,196	1,196
ADMINISTRATIVE ADJUSTMENTS	56,473	56,473
CASH TRANSFER TO GENERAL FUND	136,000	136,000
OPERATING LUMP SUM APPROPRIATION	569,400	418,881
OPERATING LUMP SUM APPROPRIATION	714,100	621,848
YUMA PRISON WATER UPGRADE CF FY06-07	13,912	-
<b>AGRICULTURE, ARIZONA DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	738	738
ADMINISTRATIVE ADJUSTMENTS	67	67
ADMINISTRATIVE ADJUSTMENTS	176	176
ADMINISTRATIVE ADJUSTMENTS	20	20
ADMINISTRATIVE ADJUSTMENTS	5,888	5,888
ADMINISTRATIVE ADJUSTMENTS	369	369
CASH TRANSFER TO GENERAL FUND	5,800	5,800
CASH TRANSFER TO GENERAL FUND	7,700	7,700
CASH TRANSFER TO GENERAL FUND	1,100	1,100
CASH TRANSFER TO GENERAL FUND	8,100	8,100
OPERATING LUMP SUM APPROPRIATION	302,600	267,228
OPERATING LUMP SUM APPROPRIATION	923,800	804,261
OPERATING LUMP SUM APPROPRIATION	503,000	463,523
OPERATING LUMP SUM APPROPRIATION	126,000	125,981
OPERATING LUMP SUM APPROPRIATION	53,500	52,596
OPERATING LUMP SUM APPROPRIATION	120,000	118,328
OPERATING LUMP SUM APPROPRIATION	306,000	282,566
OPERATING LUMP SUM APPROPRIATION	493,100	311,519
OPERATING LUMP SUM APPROPRIATION	9,200	8,746
OPERATING LUMP SUM APPROPRIATION	92,200	91,135
<b>AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM</b>		
PROPOSITION 204 SERVICES	19,222,900	18,957,899
TRADITIONAL MEDICAID SERVICES	38,295,800	38,295,800
<b>APPRAISAL, STATE BOARD OF</b>		
CASH TRANSFER TO GENERAL FUND	5,300	5,300
OPERATING LUMP SUM APPROPRIATION	774,400	708,366
<b>ATHLETIC TRAINING, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	308	308
OPERATING LUMP SUM APPROPRIATION	104,900	104,890
<b>ATTORNEY GENERAL - DEPARTMENT OF LAW</b>		
ADMINISTRATIVE ADJUSTMENTS	380	380
ADMINISTRATIVE ADJUSTMENTS	85	85
ADMINISTRATIVE ADJUSTMENTS	10,631	10,631
ADMINISTRATIVE ADJUSTMENTS	693	693
CASH TRANSFER TO GENERAL FUND	517,400	517,400
CASH TRANSFER TO GENERAL FUND	3,900	3,900
CASH TRANSFER TO GENERAL FUND	334,500	334,500
CASH TRANSFER TO GENERAL FUND	40,000	40,000

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CASH TRANSFER TO GENERAL FUND	44,400	44,400
OPERATING LUMP SUM APPROPRIATION	3,558,800	2,324,044
OPERATING LUMP SUM APPROPRIATION	249,900	141,880
OPERATING LUMP SUM APPROPRIATION	5,418,500	4,500,407
VICTIMS RIGHTS	3,255,600	3,225,013
<b>AUTOMOBILE THEFT AUTHORITY</b>		
AUTOMOBILE THEFT AUTHORITY GRANTS	3,607,700	3,607,232
CASH TRANSFER TO GENERAL FUND	887,600	887,600
OPERATING LUMP SUM APPROPRIATION	636,300	535,714
REIMBURSABLE PROGRAMS	50,000	-
<b>BARBERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	600	600
CASH TRANSFER TO GENERAL FUND	3,900	3,900
OPERATING LUMP SUM APPROPRIATION	333,300	298,846
<b>BEHAVIORAL HEALTH EXAMINERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	3,113	3,113
CASH TRANSFER TO GENERAL FUND	14,900	14,900
OPERATING LUMP SUM APPROPRIATION	1,503,400	1,469,450
<b>CHIROPRACTIC EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	180	180
CASH TRANSFER TO GENERAL FUND	6,400	6,400
OPERATING LUMP SUM APPROPRIATION	466,400	424,803
<b>CONTRACTORS, REGISTRAR OF</b>		
OFFICE OF ADMINISTRATIVE HEARING	1,017,600	471,917
OPERATING LUMP SUM APPROPRIATION	11,351,300	7,576,530
<b>CORPORATION COMMISSION</b>		
ADMINISTRATIVE ADJUSTMENTS	13,665	13,665
ADMINISTRATIVE ADJUSTMENTS	41,298	41,298
ADMINISTRATIVE ADJUSTMENTS	58,345	58,345
ANNUAL REV PUBLIC ACCESS FUND ARS 10-122	1,794,073	1,794,073
ANNUAL REVERSION PER ARS 44-3298	894,255	894,255
CASH TRANSFER TO GENERAL FUND	1,551,700	1,551,700
CASH TRANSFER TO GENERAL FUND	135,500	135,500
CASH TRANSFER TO GENERAL FUND	148,700	148,700
CASH TRANSFER TO GENERAL FUND	248,200	248,200
CORPORATION FILINGS, SAME DAY SERVICE	400,400	-
INVESTIGATE AND PROSECUTE SECURITY FRAUD FY00-01	165,599	-
OPERATING LUMP SUM APPROPRIATION	12,765,200	12,734,245
OPERATING LUMP SUM APPROPRIATION	4,389,500	4,372,220
OPERATING LUMP SUM APPROPRIATION	5,626,500	5,593,576
OPERATING LUMP SUM APPROPRIATION	710,600	710,451
UTILITIES, AUDITS, STUDIES, INVEST, HEAR	380,000	4,554
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY05-06	1	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY06-07	378,269	378,269
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY07-08	379,661	288,014
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY09-10	380,000	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY10-11	380,000	-
UTILITIES, AUDITS, STUDIES, INVEST, HEAR FY10-11	380,000	-
<b>CORRECTIONS, STATE DEPARTMENT OF</b>		
NARROWBAND RADIO CONVERSION	1,750,000	1,573,285
OPERATING LUMP SUM APPROPRIATION	554,400	425,205
OPERATING LUMP SUM APPROPRIATION	2,555,000	2,458,987
OPERATING LUMP SUM APPROPRIATION	11,499,400	11,499,400
PRIVATE PRISON PER DIEM	27,517,600	26,699,228

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>COSMETOLOGY, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	6,389	6,389
CASH TRANSFER TO GENERAL FUND	17,100	17,100
OPERATING LUMP SUM APPROPRIATION	1,793,200	1,657,900
<b>CRIMINAL JUSTICE COMMISSION, ARIZONA</b>		
CASH TRANSFER TO GENERAL FUND	659,800	659,800
CASH TRANSFER TO GENERAL FUND	307,500	307,500
CASH TRANSFER TO GENERAL FUND	267,200	267,200
CASH TRANSFER TO GENERAL FUND	115,688	115,688
OPERATING LUMP SUM APPROPRIATION	652,800	633,398
OPERATING LUMP SUM APPROPRIATION	237,500	219,720
STATE AID TO COUNTY ATTORNEYS	973,600	973,600
STATE AID TO INDIGENT DEFENSE	700,300	-
VICTIM COMPENSATION AND ASSISTANCE	3,792,500	3,087,188
<b>DEAF AND HARD OF HEARING, COMMISSION FOR THE</b>		
CASH TRANSFER TO GENERAL FUND	1,587,300	1,587,300
INTERPRETER FOR CERTIFICATION AND LICENSURE FY04-05	305,935	50,622
OPERATING LUMP SUM APPROPRIATION	3,790,300	3,228,285
<b>DENTAL EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	617	617
CASH TRANSFER TO GENERAL FUND	10,300	10,300
OPERATING LUMP SUM APPROPRIATION	1,218,600	1,114,923
<b>ECONOMIC SECURITY, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	1,126,134	1,126,134
ADMINISTRATIVE ADJUSTMENTS	1,000,000	1,000,000
ADMINISTRATIVE ADJUSTMENTS	10,770	10,770
ADMINISTRATIVE ADJUSTMENTS	93	93
ADMINISTRATIVE ADJUSTMENTS	248,839	248,839
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	19,000	8,125
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	213,000	59,608
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	347,400	52,366
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	556,100	399,070
ATTORNEY GENERAL LEGAL SERVICES	95,900	984
CASH TRANSFER TO GENERAL FUND	439,100	439,100
CASH TRANSFER TO GENERAL FUND	118,300	118,300
CASH TRANSFER TO GENERAL FUND	2,500	2,500
CASH TRANSFER TO GENERAL FUND	92,200	92,200
CASH TRANSFER TO GENERAL FUND	452,400	452,400
CHILDREN SUPPORT SERVICES	1,459,100	-
DACS DOMESTIC VIOLENCE PREVENTION	2,220,000	2,220,000
JOBS	1,110,900	244,100
REHABILITATION SERVICES	1,328,100	1,202,946
<b>EDUCATION, DEPARTMENT OF</b>		
ACCOUNTABILITY-SCHOOL SAFETY - PROP301 FY10-11	719,304	719,304
ACCOUNTABILITY-SCHOOL SAFETY - PROP301 FY11-12	7,800,000	7,438,603
ACHIEVEMENT TESTING - PROP 301 FY09-10	1,185,941	1,185,941
ACHIEVEMENT TESTING - PROP 301 FY10-11	7,000,000	3,281,921
ACHIEVEMENT TESTING - PROP 301 FY10-11	7,000,000	19,001
ADDITIONAL SCHOOL DAYS-PROP301 FY11-12	86,280,500	86,280,500
CHARACTER EDUCATION - PROP 301 FY10-11	171,097	73,809
CHARACTER EDUCATION - PROP 301 FY11-12	200,000	96,387
FAILING SCHOOL TUTORING-PROP 301 FY08-09	138	138
FAILING SCHOOL TUTORING-PROP 301 FY10-11	1,348,068	1,348,068
FAILING SCHOOL TUTORING-PROP 301 FY11-12	1,500,000	608,508
OPERATING LUMP SUM APPROPRIATION - ADMIN	135,093	135,093

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION-ST BD	379,597	326,613
SCHOOL ACCOUNTABILITY FUND - PROP 301	283,101	-
SCHOOL ACCOUNTABILITY-PROP 301 FY08-09	1,101,123	665,046
SCHOOL ACCOUNTABILITY-PROP 301 FY09-10	388,898	-
TEACHER CERTIFICATION	1,849,810	1,662,080
<b>EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF</b>		
CASH TRANSFER TO GENERAL FUND	132,700	97,446
EMERGENCY MANAGEMENT	132,700	-
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	269,537	269,537
ADMINISTRATIVE ADJUSTMENTS	98,415	98,415
ADMINISTRATIVE ADJUSTMENTS	15,491	15,491
ADMINISTRATIVE ADJUSTMENTS	102,872	102,872
ADMINISTRATIVE ADJUSTMENTS	5,262	5,262
ADMINISTRATIVE ADJUSTMENTS	6,944	6,944
AIR QUALITY FEE FUND STATE TRANSFERS	400,000	400,000
AIR QUALITY PROGRAM - CONTINUING FY01-02	186,035	-
AIR QUALITY PROGRAM - CONTINUING FY02-03	182,451	-
CASH TRANSFER BETWEEN FUNDS	3,145,700	3,145,700
CASH TRANSFER TO GENERAL FUND	8,023,900	8,023,900
CASH TRANSFER TO GENERAL FUND	62,300	62,300
CASH TRANSFER TO GENERAL FUND	619,500	619,500
CASH TRANSFER TO GENERAL FUND	1,517,900	1,517,900
CASH TRANSFER TO GENERAL FUND	894,500	894,500
CASH TRANSFER TO GENERAL FUND	369,500	369,500
CASH TRANSFER TO GENERAL FUND	783,600	783,600
EMISSIONS CAP AND TRADING PROGRAM FY01-02	70,576	-
EMISSIONS CAP AND TRADING PROGRAM FY02-03	266,582	-
EMISSIONS CONTROL - CONTRACTOR PAYMENTS	21,519,500	21,519,500
OPERATING LUMP SUM APPROPRIATION	4,145,900	3,425,319
OPERATING LUMP SUM APPROPRIATION	1,749,300	993,823
OPERATING LUMP SUM APPROPRIATION	5,411,100	2,904,743
OPERATING LUMP SUM APPROPRIATION	11,000	-
OPERATING LUMP SUM APPROPRIATION	11,000	-
OPERATING LUMP SUM APPROPRIATION	7,202,600	4,005,554
OPERATING LUMP SUM APPROPRIATION	1,972,500	697,514
OPERATING LUMP SUM APPROPRIATION	138,900	132,877
OPERATING LUMP SUM APPROPRIATION	10,602,700	5,442,262
POLITICAL SUBDIVISION ASSISTANCE FY01-02	18,500	-
ROADSIDE DIESEL EMISSIONS TEST FY01-02	200,000	-
UNDERGROUND STORAGE TANK APPEALS FY00-01	7,500	-
VISIBILITY INDEX DEVELOPMENT FY01-02	80,589	-
<b>FINANCIAL INSTITUTIONS, DEPARTMENT OF</b>		
CASH TRANSFER TO GENERAL FUND	1,018,500	1,018,500
OPERATING LUMP SUM APPROPRIATION	753,400	541,222
<b>FUNERAL DIRECTORS AND EMBALMERS, STATE BOARD OF</b>		
CASH TRANSFER TO GENERAL FUND	4,200	4,200
OPERATING LUMP SUM APPROPRIATION	352,200	291,708
<b>GAME AND FISH DEPARTMENT, ARIZONA</b>		
ADMINISTRATIVE ADJUSTMENTS	35	35
BECKER LAKE FACILITY IMPROVEMENT FY07-08	22,972	-
BECKER LAKE WILDLIFE AREA BRIDGE FY07-08	18,322	-
BELLEMONT SHOOTING RANGE FY04-05	191	-
BEN AVERY IMPROVEMENTS FY09-10	1	-
BEN AVERY IMPROVEMENTS FY10-11	110,474	16,265

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
BLACK CANYON DAM MODIFICATIONS FY05-06	197,462	50,820
BLACK CANYON DAM MODIFICATIONS FY06-07	220,319	57,057
BOAT REGISTRATION KIOSKS FY07-08	240,000	-
BOAT REGISTRATION KIOSKS FY08-09	240,000	-
BOAT SHADE CANOPIES FY07-08	46,342	37,395
BOAT SHADE CANOPIES FY08-09	120,000	-
BUILDING RENEWAL FY08-09	1,473	1,472
BUILDING RENEWAL FY09-10	54,117	4,356
BUILDING RENEWAL FY10-11	464,120	272,258
BUILDING RENEWAL FY11-12	522,100	11,558
CASH TRANSFER TO GENERAL FUND	549,200	549,200
DAM MAINTENANCE	500,000	65,706
FLAGSTAFF OFFICE REMODEL/EXPANSION FY07-08	25,505	25,504
FLAGSTAFF SHOOTING RANGE DEVELOPMENT FY00-01	2,545	211
FLAGSTAFF SHOOTING RANGE PLANNING FY01-02	51,694	51,694
FLAGSTAFF SHOOTING RANGE PLANNING FY02-03	457,727	399,980
FLOOD WARNING SYSTEM FY06-07	12,122	-
HEADQUARTERS SECURITY SYSTEM FY03-04	1	-
LAKE HAVASU SHOOTING RANGE FY03-04	269,755	71,818
LOWER COLORADO MULTI-SPECIES CONSERVATION	350,000	350,000
MIGRATORY WATERFOWL DEVELOPMENT FY01-02	5,501	5,350
MIGRATORY WATERFOWL DEVELOPMENT FY02-03	53,119	38,418
MIGRATORY WATERFOWL DEVELOPMENT FY03-04	61,715	-
MIGRATORY WATERFOWL HABITAT FY06-07	69,912	69,895
MIGRATORY WATERFOWL HABITAT FY10-11	100,000	23,000
OPERATING LUMP SUM APPROPRIATION	28,872,400	23,877,594
OPERATING LUMP SUM APPROPRIATION	2,886,700	2,377,784
OPERATING LUMP SUM APPROPRIATION	343,400	205,532
OPERATING LUMP SUM APPROPRIATION	1,000,000	999,986
OPERATING LUMP SUM APPROPRIATION	43,400	14,412
OPERATING LUMP SUM APPROPRIATION	16,000	-
PERFORMANCE INCENTIVE PAY FY11-12	300,000	300,000
PERFORMANCE INCENTIVE PAY FY11-12	46,800	46,800
PITTMAN-ROBERTSON/DINGELL-JOHNSON ACT	3,808,000	2,000,000
PROPERTY MAINTENANCE	500,000	368,739
RADIO TOWER FY09-10	250,000	-
RADIO TOWER FY10-11	250,000	-
REGIONAL (MESA) OFFICE REMODEL FY08-09	88,660	88,660
REGIONAL (YUMA) OFFICE REMODEL FY08-09	912,432	5,793
REGIONAL KINGMAN OFFICE REMODEL FY09-10	887,736	2,000
REGIONAL YUMA OFFICE PAVING FY10-11	57,620	200
ROBBINS BUTTE LEVEE FY07-08	74,273	74,273
SHOOTING RANGE ACCESS IMPROVEMENTS FY08-09	139	-
SHOOTING RANGE ACCESS IMPROVEMENTS FY09-10	1,641	1,640
SHOOTING RANGE ACCESS IMPROVEMENTS FY10-11	16,791	16,790
SILVER CREEK HATCHERY REMODEL FY09-10	1,699,108	48,175
SILVER CREEK HATCHERY REMODEL FY10-11	1,000,000	-
STATEWIDE PREVENTATIVE MAINTENANCE FY08-09	4	-
STATEWIDE PREVENTATIVE MAINTENANCE FY09-10	2,799	2,799
STATEWIDE PREVENTATIVE MAINTENANCE FY10-11	1,277	1,277
STATEWIDE PREVENTATIVE MAINTENANCE FY11-12	30,000	29,999
TONTO CREEK HATCHERY IMPROVEMENT FY05-06	39	-
TRI-STATE SHOOTING RANGE DEVELOPMENT FY04-05	299,649	-
WATERCRAFT GRANT PROGRAM	1,175,000	966,000
WATERCRAFT SAFETY EDUCATION PROGRAM	250,000	236,351

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
YUMA OFFICE SECURITY SYSTEM FY06-07	15,350	-
<b>GAMING, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	819	819
CASINO OPERATION CERTIFICATION	2,067,800	2,033,297
OPERATING LUMP SUM APPROPRIATION	8,209,800	7,914,042
PROBLEM GAMBLING	300,000	300,000
PROBLEM GAMBLING	1,596,500	1,594,892
<b>GOVERNOR, OFFICE OF THE</b>		
OPERATING LUMP SUM APPROPRIATION	192,300	-
<b>HEALTH SERVICES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	1,071	1,071
ADMINISTRATIVE ADJUSTMENTS	440,023	440,023
ADMINISTRATIVE ADJUSTMENTS	72,125	72,125
ADMINISTRATIVE ADJUSTMENTS	361,203	361,203
ADMINISTRATIVE ADJUSTMENTS	13,803	13,803
ADMINISTRATIVE ADJUSTMENTS	2,362	2,362
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	8,578,100	8,041,232
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	4,703,100	3,991,735
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	431,900	-
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	38,000	-
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	930,100	753,441
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	97,200	95,454
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	3,732,100	2,031,766
ALZHEIMER DISEASE RESEARCH	1,000,000	1,000,000
CASH TRANSFER TO GENERAL FUND	304,000	304,000
CASH TRANSFER TO GENERAL FUND	1,086,500	1,086,500
CASH TRANSFER TO GENERAL FUND	72,300	72,300
CASH TRANSFER TO GENERAL FUND	800,000	800,000
CASH TRANSFER TO GENERAL FUND	60,200	60,200
CASH TRANSFER TO GENERAL FUND	3,700	3,700
CASH TRANSFER TO GENERAL FUND	7,300	7,300
CRISES SERVICES	1,350,000	1,350,000
CRISES SERVICES	900,000	900,000
FOLIC ACID	400,000	362,228
HIGH RISK PERINATAL SERVICES	450,000	211,501
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	34,767,000	34,767,000
NEWBORN SCREENING PROGRAM	6,330,800	4,962,882
NONPROFIT MEDICAL RESEARCH FOUNDATION	500,000	-
NURSING CARE INST QUALITY IMPROVEMENT	400,000	144,395
RELIEF BILL CASH TRANSFER FY12	5,000	5,000
<b>HIGHWAY SAFETY, GOVERNOR'S OFFICE OF</b>		
CASH TRANSFER TO GENERAL FUND	31,900	31,900
<b>HOMEOPATHIC AND INTEGRATED MEDICINE EXAMINERS, BOARD OF</b>		
CASH TRANSFER TO GENERAL FUND	1,100	1,100
OPERATING LUMP SUM APPROPRIATION	109,600	107,604
<b>HOUSING, ARIZONA DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	955,600	912,064
<b>INDUSTRIAL COMMISSION OF ARIZONA</b>		
ADMINISTRATIVE ADJUSTMENTS	51,184	51,184
CASH TRANSFER TO GENERAL FUND	426,700	426,700
OPERATING LUMP SUM APPROPRIATION	20,194,000	17,364,665
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	4,398	4,398
CASH TRANSFER TO GENERAL FUND	152,000	152,000
OPERATING LUMP SUM APPROPRIATION	549,500	520,848

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>LAND DEPARTMENT, STATE</b>		
NATURAL RESOURCE CONSERVATION DISTRICTS	260,000	173,044
<b>MEDICAL EXAMINERS BOARD</b>		
ADMINISTRATIVE ADJUSTMENTS	21,945	21,945
CASH TRANSFER TO GENERAL FUND	122,100	122,100
OPERATING LUMP SUM APPROPRIATION	5,983,300	5,221,806
PERFORMANCE BASED INCENTIVE PROGRAM	150,000	108,651
<b>MINE INSPECTOR, STATE</b>		
ADMINISTRATIVE ADJUSTMENTS	283	283
AGGREGATE MINED LAND RECLAMATION	112,900	12,084
CASH TRANSFER TO GENERAL FUND	1,200	1,200
<b>NATUROPATHIC PHYSICIANS MEDICAL BOARD</b>		
CASH TRANSFER TO GENERAL FUND	1,530	1,530
CASH TRANSFER TO GENERAL FUND	3,570	3,570
OPERATING LUMP SUM APPROPRIATION	182,070	182,055
OPERATING LUMP SUM APPROPRIATION	424,830	424,783
<b>NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS, BOARD OF EXAMINERS OF</b>		
ADMINISTRATIVE ADJUSTMENTS	354	354
CASH TRANSFER TO GENERAL FUND	4,300	4,300
OPERATING LUMP SUM APPROPRIATION	375,800	339,141
<b>NURSING, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	9,301	9,301
CASH TRANSFER TO GENERAL FUND	104,000	104,000
OPERATING LUMP SUM APPROPRIATION	4,169,500	4,158,890
<b>OCCUPATIONAL THERAPY EXAMINERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	476	476
CASH TRANSFER TO GENERAL FUND	3,500	3,500
OPERATING LUMP SUM APPROPRIATION	168,400	168,400
<b>OPTICIANS, STATE BOARD OF DISPENSING</b>		
ADMINISTRATIVE ADJUSTMENTS	186	186
CASH TRANSFER TO GENERAL FUND	1,200	1,200
OPERATING LUMP SUM APPROPRIATION	135,100	133,391
<b>OPTOMETRY, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	363	363
CASH TRANSFER TO GENERAL FUND	2,800	2,800
OPERATING LUMP SUM APPROPRIATION	204,700	199,047
<b>OSTEOPATHIC EXAMINERS, ARIZONA BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	2,515	2,515
CASH TRANSFER TO GENERAL FUND	8,400	8,400
OPERATING LUMP SUM APPROPRIATION	721,500	611,502
<b>PARKS BOARD, ARIZONA STATE</b>		
ADMINISTRATIVE ADJUSTMENTS	52,497	52,497
ADMINISTRATIVE ADJUSTMENTS	3,952	3,952
CASH TRANSFER TO GENERAL FUND	102,400	102,400
KARTCHNER CAVERNS STATE PARK	214,200	166,533
OFF HIGHWAY VEHICLE PARKS OPERATIONS	692,100	682,596
OPERATING LUMP SUM APPROPRIATION	375,800	316,411
OPERATING LUMP SUM APPROPRIATION	2,632,900	2,442,737
<b>PEST MANAGEMENT, OFFICE OF</b>		
ADMINISTRATIVE ADJUSTMENTS	4,151	4,151
CASH TRANSFER TO GENERAL FUND	62,600	62,600
OPERATING LUMP SUM APPROPRIATION	2,793,100	1,431,013
<b>PHARMACY, ARIZONA STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	53	53

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CASH TRANSFER TO GENERAL FUND	22,500	22,500
CONTROLLED SUBSTANCE PRESCRIPTION MONITORING PROGRAM	200,000	200,000
OPERATING LUMP SUM APPROPRIATION	1,992,400	1,897,039
<b>PHYSICAL THERAPY EXAMINERS, BOARD OF</b>		
CASH TRANSFER TO GENERAL FUND	4,100	4,100
OPERATING LUMP SUM APPROPRIATION	375,000	348,706
<b>PODIATRY EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	51	51
CASH TRANSFER TO GENERAL FUND	1,500	1,500
OPERATING LUMP SUM APPROPRIATION	147,100	128,285
<b>POSTSECONDARY EDUCATION, COMMISSION FOR</b>		
ADMINISTRATIVE ADJUSTMENTS	21,750	21,750
ARIZONA COLLEGE AND CAREER GUIDE	21,200	20,637
AZ MINORITY ED POLICY ANALYSIS CENTER	100,000	25,762
CASH TRANSFER TO GENERAL FUND	9,800	9,800
FAMILY COLLEGE SAVINGS PROGRAM	149,500	49,644
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	3,043,700	1,098,720
OPERATING LUMP SUM APPROPRIATION	418,500	144,677
TWELVE PLUS PARTNERSHIP	130,500	130,500
<b>PRIVATE POSTSECONDARY EDUCATION, STATE BOARD FOR</b>		
ADMINISTRATIVE ADJUSTMENTS	397	397
CASH TRANSFER TO GENERAL FUND	4,800	4,800
OPERATING LUMP SUM APPROPRIATION	339,200	336,333
<b>PSYCHOLOGIST EXAMINERS, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	200	200
CASH TRANSFER TO GENERAL FUND	4,100	4,100
OPERATING LUMP SUM APPROPRIATION	327,796	321,820
OPERATING LUMP SUM APPROPRIATION	29,104	14,106
<b>PUBLIC SAFETY, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	73,782	73,782
CASH TRANSFER TO GENERAL FUND	1,897,000	1,897,000
CASH TRANSFER TO GENERAL FUND	200,000	200,000
CASH TRANSFER TO GENERAL FUND	11,000	11,000
CASH TRANSFER TO GENERAL FUND	2,589,100	2,589,100
CASH TRANSFER TO GENERAL FUND	3,554,700	3,554,700
CASH TRANSFER TO GENERAL FUND	600,000	600,000
CASH TRANSFER TO GENERAL FUND	450,000	450,000
DNA TESTING	980,000	896,868
DNA TESTING FY02-03	1,258,331	-
DNA TESTING FY03-04	678,704	-
DNA TESTING FY07-08	938,531	-
DNA TESTING FY08-09	230,451	-
MOTOR VEHICLE FUEL	231,300	231,300
OPERATING LUMP SUM APPROPRIATION	18,833,800	18,356,986
OPERATING LUMP SUM APPROPRIATION	1,553,300	1,553,300
OPERATING LUMP SUM APPROPRIATION	884,200	883,874
OPERATING LUMP SUM APPROPRIATION	3,018,800	2,917,819
OPERATING LUMP SUM APPROPRIATION	3,104,800	3,104,800
OPERATING LUMP SUM APPROPRIATION	11,380,600	10,514,300
OPERATING LUMP SUM APPROPRIATION	205,000	205,000
OPERATING LUMP SUM APPROPRIATION	1,878,600	1,878,600
OPERATING LUMP SUM APPROPRIATION	123,210,600	123,210,600
OPERATING LUMP SUM APPROPRIATION	2,952,200	2,786,500
PHOTO ENFORCEMENT-GENERAL FUND REVERSION	1,403,933	1,403,933
PUBLIC SAFETY EQUIPMENT FY08-09	2,500,000	-

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
PUBLIC SAFETY EQUIPMENT FY09-10	2,728,719	-
PUBLIC SAFETY EQUIPMENT FY11-12	1,200,000	998,326
PUBLIC SAFETY EQUIPMENT SURCHARGE	2,390,000	1,244,385
<b>RACING, ARIZONA DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	1,473,500	889,613
<b>RADIATION REGULATORY AGENCY</b>		
ADMINISTRATIVE ADJUSTMENTS	92	92
CASH TRANSFER TO GENERAL FUND	24,400	24,400
OPERATING LUMP SUM APPROPRIATION	271,900	267,780
<b>RESIDENTIAL UTILITY CONSUMER OFFICE</b>		
CASH TRANSFER TO GENERAL FUND	14,900	14,900
OPERATING LUMP SUM APPROPRIATION	1,192,600	1,041,970
PROFESSIONAL WITNESSES	139,317	-
PROFESSIONAL WITNESSES	145,000	19,129
PROFESSIONAL WITNESSES FY07-08	13,554	13,554
PROFESSIONAL WITNESSES FY08-09	96,628	96,394
PROFESSIONAL WITNESSES FY09-10	85,659	42,333
<b>RESPIRATORY CARE EXAMINERS, BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	2,714	2,714
CASH TRANSFER TO GENERAL FUND	4,200	4,200
OPERATING LUMP SUM APPROPRIATION	317,400	308,377
<b>REVENUE, DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	683,100	680,780
<b>SUPREME COURT</b>		
ADMINISTRATIVE ADJUSTMENTS	92,652	92,652
AUTOMATION	7,795,300	7,326,171
CASE AND CASH MANAGEMENT SYSTEM	3,187,100	2,874,857
CASH TRANSFER TO GENERAL FUND	170,600	170,600
CASH TRANSFER TO GENERAL FUND	210,100	210,100
CASH TRANSFER TO GENERAL FUND	21,100	21,100
CASH TRANSFER TO GENERAL FUND	11,000	11,000
COMMUNITY PUNISHMENT	1,816,300	970,952
COMMUNITY PUNISHMENT	500,000	487,255
COURT APPOINTED SPECIAL ADVOCATE	2,943,600	2,322,595
JUVENILE CRIME REDUCTION	5,138,700	3,281,084
OPERATING LUMP SUM APPROPRIATION	2,868,100	2,158,138
OPERATING LUMP SUM APPROPRIATION	494,800	404,816
PHOTO ENFORCEMENT TO GF TRANSFER	20,397	20,397
PROBATION SURCHARGE	5,031,500	4,789,293
STATE AID	2,976,700	2,011,392
STATE AID	2,945,800	2,728,847
<b>TECHNICAL REGISTRATION, STATE BOARD OF</b>		
ADMINISTRATIVE ADJUSTMENTS	60,837	60,837
CASH TRANSFER TO GENERAL FUND	20,400	20,400
OPERATING LUMP SUM APPROPRIATION	1,890,800	1,715,601
<b>VETERANS' SERVICES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	469	469
OPERATING LUMP SUM APPROPRIATION	903,400	697,435
<b>VETERINARY MEDICAL EXAMINING BOARD, ARIZONA STATE</b>		
ADMINISTRATIVE ADJUSTMENTS	1,956	1,956
CASH TRANSFER TO GENERAL FUND	5,600	5,600
OPERATING LUMP SUM APPROPRIATION	472,300	428,732
<b>WATER RESOURCES, DEPARTMENT OF</b>		
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	274,200	270,379
CASH TRANSFER TO GENERAL FUND	12,300	12,300

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 NON-MAJOR SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION	6,443,500	5,122,639
<b>WEIGHTS AND MEASURES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	36,486	36,486
CASH TRANSFER TO GENERAL FUND	121,200	121,200
GENERAL SERVICES	327,800	326,401
OXYGENATED FUEL	796,830	728,929
VAPOR RECOVERY	649,070	646,002
<b>TOTAL NON-MAJOR SPECIAL REVENUE FUNDS BUDGETARY EXPENDITURES</b>	<u>\$ 813,827,938</u>	<u>\$ 716,677,719</u>

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 LAND ENDOWMENTS FUND  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>		
ARCHIVES AND HISTORY BUILDING 05 LEG	\$ 93,151	\$ 93,151
<b>CORRECTIONS, STATE DEPARTMENT OF</b>		
NARROWBAND RADIO CONVERSION	1,000,000	749,181
NARROWBAND RADIO CONVERSION	3,000,000	1,580,154
OPERATING LUMP SUM APPROPRIATION	360,000	341,017
PRIVATE PRISON PER DIEM	979,200	979,200
<b>DEAF AND BLIND, ARIZONA SCHOOLS FOR THE</b>		
ADMINISTRATIVE ADJUSTMENTS	84,874	84,874
CASH TRANSFER TO GENERAL FUND	220,600	220,600
PHOENIX DAY SCHOOL FOR THE DEAF	5,977,073	5,977,073
PRESCHOOL/OUTREACH PROGRAMS	2,953,200	2,865,154
TUCSON CAMPUS	4,325,527	4,325,438
<b>EDUCATION, DEPARTMENT OF</b>		
BASIC STATE AID ENTITLEMENT	46,475,500	46,475,500
<b>HEALTH SERVICES, DEPARTMENT OF</b>		
ADMINISTRATIVE ADJUSTMENTS	85	85
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	1,150,000	1,081,842
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	1,113,500	1,113,500
<b>LAND DEPARTMENT, STATE</b>		
OPERATING LUMP SUM APPROPRIATION	3,791,700	1,756,424
<b>PIONEERS' HOME, ARIZONA</b>		
OPERATING LUMP SUM APPROPRIATION	2,687,500	2,686,847
OPERATING LUMP SUM APPROPRIATION	1,780,800	1,512,055
PRESCRIPTION DRUGS	240,000	134,046
<b>TOTAL LAND ENDOWMENTS FUND BUDGETARY EXPENDITURES</b>	<b>\$ 76,232,710</b>	<b>\$ 71,976,141</b>

## **NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS**

**The Lottery Fund** administers the payment of principal and interest on the Lottery Revenue Bonds issued by the State of Arizona (acting by and through the Director of the Department of Administration).

**The Department of Transportation Fund** administers the payment of principal and interest on the Highway Revenue Bonds 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, 2012  
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION
<b>ASSETS</b>				
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ -	\$ 1,064
Due from other Funds	3,750	-	-	-
Restricted assets:				
Cash and pooled investments with State Treasurer	-	14,991	129	-
Cash held by trustee	-	-	-	7,708
<b>Total Assets</b>	<b>\$ 3,750</b>	<b>\$ 14,991</b>	<b>\$ 129</b>	<b>\$ 8,772</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other current liabilities	\$ -	\$ -	\$ -	\$ 203
Accrued liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>203</b>
Fund Balances:				
Restricted	\$ 3,750	\$ 14,991	\$ 129	\$ 8,569
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,750</b>	<b>\$ 14,991</b>	<b>\$ 129</b>	<b>\$ 8,772</b>

SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES	TOTAL
\$ -	\$ -	\$ 1,064
-	-	3,750
27,439	266	42,825
-	-	7,708
<u>\$ 27,439</u>	<u>\$ 266</u>	<u>\$ 55,347</u>

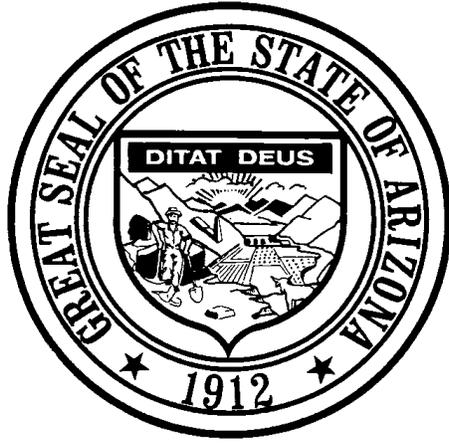
\$ 4	\$ 78	\$ 285
-	3	3
<u>4</u>	<u>81</u>	<u>288</u>

<u>\$ 27,435</u>	<u>\$ 185</u>	<u>\$ 55,059</u>
<u>\$ 27,439</u>	<u>\$ 266</u>	<u>\$ 55,347</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION
<b>REVENUES</b>				
Sales taxes	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	71	310	-
Other	-	-	-	411
Total Revenues	-	71	310	411
<b>EXPENDITURES</b>				
Debt service:				
Principal	-	67,885	55,460	23,445
Interest and other fiscal charges	20,710	72,639	48,153	61,791
Total Expenditures	20,710	140,524	103,613	85,236
(Deficiency) of Revenues Over Expenditures	(20,710)	(140,453)	(103,303)	(84,825)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	22,389	152,687	103,223	90,435
Transfers out	-	-	-	-
Refunding bonds issued	-	455,900	-	-
Refunding GANs issued	-	-	-	-
Payment to refunded bond escrow agent	-	(511,869)	-	-
Premium on debt issued	-	57,453	-	-
Total Other Financing Sources (Uses)	22,389	154,171	103,223	90,435
Net Change in Fund Balances	1,679	13,718	(80)	5,610
Fund Balances - Beginning	2,071	1,273	209	2,959
Fund Balances - Ending	\$ 3,750	\$ 14,991	\$ 129	\$ 8,569

SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES	TOTAL
\$ 65,810	\$ -	\$ 65,810
1,100	3	1,484
-	-	411
<u>66,910</u>	<u>3</u>	<u>67,705</u>
58,805	57,090	262,685
<u>29,673</u>	<u>18,191</u>	<u>251,157</u>
<u>88,478</u>	<u>75,281</u>	<u>513,842</u>
<u>(21,568)</u>	<u>(75,278)</u>	<u>(446,137)</u>
25,854	74,946	469,534
(280)	-	(280)
-	-	455,900
-	43,825	43,825
-	(48,359)	(560,228)
-	4,861	62,314
<u>25,574</u>	<u>75,273</u>	<u>471,065</u>
4,006	(5)	24,928
<u>23,429</u>	<u>190</u>	<u>30,131</u>
<u>\$ 27,435</u>	<u>\$ 185</u>	<u>\$ 55,059</u>



## **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 proceeds from Arizona Transportation Board Grant Anticipation Notes. These monies are expended for the acquisition of right-of-way purchase, or construction of certain controlled access highways within Maricopa County.

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

**The Maricopa Regional Area Road Debt Financed Fund (MRARF)** administers the bond proceeds from the Transportation Board of the State of Arizona Transportation Excise Tax Revenue Bonds. These monies are spent on the construction of State highways within Maricopa County.

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR CAPITAL PROJECTS FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	MRARF DEBT FINANCED
<b>ASSETS</b>				
Collateral investment pool	\$ -	\$ -	\$ -	\$ 992
Due from other Funds	-	-	-	268
Restricted assets:				
Cash and pooled investments with				
State Treasurer	100,725	103,141	1,108	227,066
Cash held by trustee	-	-	2,348	-
Total Assets	<u>\$ 100,725</u>	<u>\$ 103,141</u>	<u>\$ 3,456</u>	<u>\$ 228,326</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other current				
liabilities	\$ -	\$ -	\$ 30	\$ -
Accrued liabilities	10	-	-	-
Obligations under securities loan				
agreements	-	-	-	992
Due to other Funds	3,768	-	-	61
Total Liabilities	<u>3,778</u>	<u>-</u>	<u>30</u>	<u>1,053</u>
Fund Balances:				
Restricted	96,947	103,141	3,426	227,273
Total Fund Balances	<u>96,947</u>	<u>103,141</u>	<u>3,426</u>	<u>227,273</u>
Total Liabilities and Fund Balances	<u>\$ 100,725</u>	<u>\$ 103,141</u>	<u>\$ 3,456</u>	<u>\$ 228,326</u>

TOTAL

\$ 992  
268

432,040  
2,348

\$ 435,648

\$ 30  
10

992  
3,829  
4,861

430,787  
430,787

\$ 435,648

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	MRARF DEBT FINANCED
<b>REVENUES</b>				
Earnings on investments	\$ 757	\$ 1,330	\$ 102	\$ 1,861
Total Revenues	<u>757</u>	<u>1,330</u>	<u>102</u>	<u>1,861</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	15,494	5,190	-	366
Debt service:				
Interest and other fiscal charges	349	-	-	775
Capital outlay	15,355	50,024	8,483	76,366
Total Expenditures	<u>31,198</u>	<u>55,214</u>	<u>8,483</u>	<u>77,507</u>
(Deficiency) of Revenues Over Expenditures	<u>(30,441)</u>	<u>(53,884)</u>	<u>(8,381)</u>	<u>(75,646)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	-	-	(5,661)	-
Bonds issued	100,000	-	-	159,460
Premium on debt issued	7,704	-	-	20,735
Total Other Financing Sources (Uses)	<u>107,704</u>	<u>-</u>	<u>(5,661)</u>	<u>180,195</u>
Net Change in Fund Balances	77,263	(53,884)	(14,042)	104,549
Fund Balances - Beginning	19,684	157,025	17,468	122,724
Fund Balances - Ending	<u>\$ 96,947</u>	<u>\$ 103,141</u>	<u>\$ 3,426</u>	<u>\$ 227,273</u>

TOTAL

\$	4,050
	<u>4,050</u>

21,050

1,124

150,228

172,402

(168,352)

(5,661)

259,460

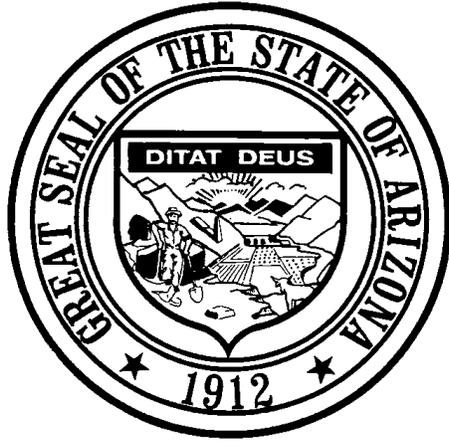
28,439

282,238

113,886

316,901

\$ 430,787



## 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.

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

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

**The Other Enterprise Funds** consist of the Veterans Administration Reimbursement Fund, the State Home for Veterans Trust Fund and the Tonto Natural Bridge Publications and Souvenirs Revolving Fund.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET ASSETS**  
NON-MAJOR ENTERPRISE FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 2,637	\$ 207	\$ -	\$ 21	\$ -
Cash and pooled investments with State Treasurer	53	4,833	2,263	2,277	-
Restricted cash and pooled investments with State Treasurer	-	-	-	-	76,350
Receivables, net of allowances:					
Interest	1	-	-	-	2
Loans and notes	-	-	-	-	530
Other	1,955	4,891	212	42	-
Due from U.S. Government	138	-	-	-	-
Due from other Funds	9	-	27	-	-
Inventories, at cost	2,907	3,101	380	-	-
Other current assets	58	192	347	64	-
Total Current Assets	<u>7,758</u>	<u>13,224</u>	<u>3,229</u>	<u>2,404</u>	<u>76,882</u>
Noncurrent Assets:					
Capital assets:					
Land and other non-depreciable	182	692	8	179	-
Buildings, equipment, and other depreciable, net of accumulated depreciation	2,496	2,401	35	9,766	-
Total Noncurrent Assets	<u>2,678</u>	<u>3,093</u>	<u>43</u>	<u>9,945</u>	<u>-</u>
Total Assets	<u>10,436</u>	<u>16,317</u>	<u>3,272</u>	<u>12,349</u>	<u>76,882</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	382	1,025	22	-	-
Accrued liabilities	213	376	32	52	-
Due to other Funds	-	-	-	-	-
Unearned deferred revenue	-	18	2,205	73	-
Current portion of long-term debt	-	19	-	-	-
Current portion of other long-term liabilities	172	466	147	148	-
Total Current Liabilities	<u>767</u>	<u>1,904</u>	<u>2,406</u>	<u>273</u>	<u>-</u>
Noncurrent Liabilities:					
Contracts payable	-	-	-	-	-
Other long-term liabilities	78	-	-	-	-
Total Noncurrent Liabilities	<u>78</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>845</u>	<u>1,904</u>	<u>2,406</u>	<u>273</u>	<u>-</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	2,678	3,074	43	9,945	-
Restricted for:					
Loans and other financial assistance:					
Expendable	-	-	-	-	76,882
Unrestricted	6,913	11,339	823	2,131	-
Total Net Assets	<u>\$ 9,591</u>	<u>\$ 14,413</u>	<u>\$ 866</u>	<u>\$ 12,076</u>	<u>\$ 76,882</u>

HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ -	\$ -	\$ 2,865
8,865	3,236	21,527
-	-	76,350
-	-	3
-	-	530
-	2,155	9,255
-	-	138
-	135	171
-	-	6,388
-	-	661
<u>8,865</u>	<u>5,526</u>	<u>117,888</u>
-	980	2,041
<u>1</u>	<u>7,387</u>	<u>22,086</u>
<u>1</u>	<u>8,367</u>	<u>24,127</u>
<u>8,866</u>	<u>13,893</u>	<u>142,015</u>
29	277	1,735
2,219	271	3,163
-	1	1
3,532	-	5,828
-	-	19
50	-	983
<u>5,830</u>	<u>549</u>	<u>11,729</u>
879	-	879
-	-	78
<u>879</u>	<u>-</u>	<u>957</u>
<u>6,709</u>	<u>549</u>	<u>12,686</u>
1	8,367	24,108
-	-	76,882
<u>2,156</u>	<u>4,977</u>	<u>28,339</u>
<u>\$ 2,157</u>	<u>\$ 13,344</u>	<u>\$ 129,329</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

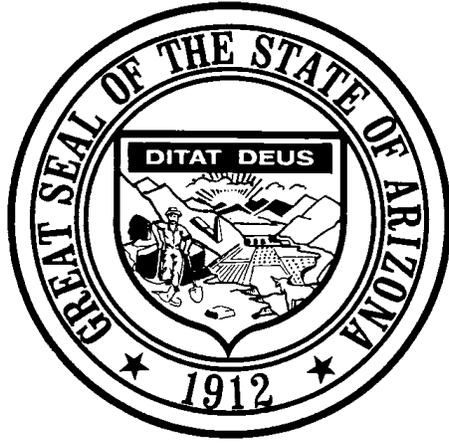
	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
<b>OPERATING REVENUES</b>					
Sales and charges for services	\$ 18,979	\$ 38,452	\$ 4,889	\$ 10,323	\$ -
Intergovernmental	65	-	-	-	-
Earnings on investments	-	-	-	-	2
Other	31	-	692	1,020	-
Total Operating Revenues	<u>19,075</u>	<u>38,452</u>	<u>5,581</u>	<u>11,343</u>	<u>2</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	10,016	30,685	2,510	1,735	-
Personal services	5,618	3,263	1,571	3,928	17
Contractual services	2,005	35	607	3,747	13
Depreciation and amortization	154	518	14	681	-
Insurance	-	-	-	219	-
Other	1,271	776	260	1,045	-
Total Operating Expenses	<u>19,064</u>	<u>35,277</u>	<u>4,962</u>	<u>11,355</u>	<u>30</u>
Operating Income (Loss)	<u>11</u>	<u>3,175</u>	<u>619</u>	<u>(12)</u>	<u>(28)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
(Loss) on sale of capital assets	-	(1)	(2)	-	-
Investment income	13	20	20	7	764
Other non-operating revenue	-	-	-	-	-
Interest expense	-	(9)	-	-	-
Other non-operating expense	-	-	(1)	-	(46)
Total Non-Operating Revenues (Expenses)	<u>13</u>	<u>10</u>	<u>17</u>	<u>7</u>	<u>718</u>
Income (Loss) Before Contributions, and Transfers	<u>24</u>	<u>3,185</u>	<u>636</u>	<u>(5)</u>	<u>690</u>
Capital grants and contributions	-	-	-	3,468	-
Transfers in	16	-	-	-	-
Transfers out	(58)	(1,408)	(13)	(133)	-
Change in Net Assets	(18)	1,777	623	3,330	690
Total Net Assets - Beginning	<u>9,609</u>	<u>12,636</u>	<u>243</u>	<u>8,746</u>	<u>76,192</u>
Total Net Assets - Ending	<u>\$ 9,591</u>	<u>\$ 14,413</u>	<u>\$ 866</u>	<u>\$ 12,076</u>	<u>\$ 76,882</u>

HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ 31,078	\$ 16,468	\$ 120,189
-	-	65
-	-	2
-	593	2,336
<u>31,078</u>	<u>17,061</u>	<u>122,592</u>
24,382	318	69,646
1,000	11,274	26,671
133	1,938	8,478
2	348	1,717
-	291	510
202	2,715	6,269
<u>25,719</u>	<u>16,884</u>	<u>113,291</u>
<u>5,359</u>	<u>177</u>	<u>9,301</u>
-	-	(3)
63	21	908
186	-	186
-	-	(9)
-	-	(47)
<u>249</u>	<u>21</u>	<u>1,035</u>
<u>5,608</u>	<u>198</u>	<u>10,336</u>
-	-	3,468
-	-	16
<u>(462)</u>	<u>(69)</u>	<u>(2,143)</u>
5,146	129	11,677
<u>(2,989)</u>	<u>13,215</u>	<u>117,652</u>
<u>\$ 2,157</u>	<u>\$ 13,344</u>	<u>\$ 129,329</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 18,386	\$ 38,206	\$ 4,789	\$ 10,320	\$ 110
Receipts from repayment of loans to local governments	-	-	-	-	3,894
Payments to suppliers or insurance companies	(10,112)	(15,035)	(3,249)	(6,768)	(13)
Payments to employees	(5,811)	(20,138)	(1,615)	(3,973)	(23)
Other receipts	53	-	691	1,020	-
Other payments	(3,274)	-	-	-	(30)
Net Cash Provided (Used) by Operating Activities	(758)	3,033	616	599	3,938
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Receipts from settlement income	-	-	-	-	-
Transfers from other Funds	16	-	-	-	-
Transfers to other Funds	(58)	(1,408)	(13)	(133)	(1)
Net Cash (Used) by Non-capital Financing Activities	(42)	(1,408)	(13)	(133)	(1)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets	(1,689)	(407)	(6)	(64)	-
Interest paid on capital debt, installment purchase contracts, and capital leases	-	(6)	-	-	-
Principal paid on capital debt, installment purchase contracts, and capital leases	-	(111)	-	-	-
Net Cash (Used) by Capital and Related Financing Activities	(1,689)	(524)	(6)	(64)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest and dividends from investments	13	20	19	7	719
Change in cash collateral received from securities lending transactions	-	-	-	-	(912)
Net Cash Provided (Used) by Investing Activities	13	20	19	7	(193)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,476)	1,121	616	409	3,744
Cash and Cash Equivalents - Beginning	5,166	3,919	1,647	1,889	72,606
Cash and Cash Equivalents - Ending	\$ 2,690	\$ 5,040	\$ 2,263	\$ 2,298	\$ 76,350
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 11	\$ 3,175	\$ 619	\$ (12)	\$ (28)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	154	518	14	681	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(570)	(463)	48	(3)	4,002
(Increase) in due from U.S. Government	(65)	-	-	-	-
(Increase) decrease in due from other Funds	1	-	-	-	-
(Increase) decrease in inventories, at cost	(58)	(117)	94	-	-
(Increase) decrease in other assets	3	(66)	44	(37)	-
Increase (decrease) in accounts payable	(123)	193	(11)	15	-
(Decrease) in accrued liabilities	(95)	(244)	(58)	(40)	(2)
(Decrease) in due to local governments	-	-	-	-	(30)
Increase (decrease) in deferred revenue	-	4	(149)	-	-
Increase (decrease) in other liabilities	(16)	33	15	(5)	(4)
Net Cash Provided (Used) by Operating Activities	\$ (758)	\$ 3,033	\$ 616	\$ 599	\$ 3,938
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>					
Contribution of capital assets from other Funds	\$ -	\$ -	\$ -	\$ 3,468	\$ -
(Loss) on disposal of capital assets, net	-	(4)	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ -	\$ (4)	\$ -	\$ 3,468	\$ -

HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ 30,227	\$ 16,448	\$ 118,486
-	-	3,894
(29,062)	(5,176)	(69,415)
(1,027)	(11,551)	(44,138)
-	593	2,357
-	-	(3,304)
<u>138</u>	<u>314</u>	<u>7,880</u>
185	-	185
-	-	16
(462)	(69)	(2,144)
<u>(277)</u>	<u>(69)</u>	<u>(1,943)</u>
-	(18)	(2,184)
-	-	(6)
-	-	(111)
-	(18)	(2,301)
63	21	862
-	-	(912)
<u>63</u>	<u>21</u>	<u>(50)</u>
(76)	248	3,586
8,941	2,988	97,156
<u>\$ 8,865</u>	<u>\$ 3,236</u>	<u>\$ 100,742</u>
\$ 5,359	\$ 177	\$ 9,301
2	348	1,717
-	40	3,054
-	-	(65)
-	(60)	(59)
-	-	(81)
-	-	(56)
(73)	86	87
(4,271)	(277)	(4,987)
-	-	(30)
(851)	-	(996)
(28)	-	(5)
<u>\$ 138</u>	<u>\$ 314</u>	<u>\$ 7,880</u>
\$ -	\$ -	\$ 3,468
-	-	(4)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,464</u>



## INTERNAL SERVICE FUNDS

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

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

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

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

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

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

**The Retiree Sick Leave Fund** accounts for monies paid out to retirees for their accumulated sick leave.

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET ASSETS**  
INTERNAL SERVICE FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION	TECHNOLOGY
<b>ASSETS</b>					
Current Assets:					
Cash and pooled investments with State Treasurer	\$ 55,407	\$ 635	\$ 328,500	\$ 904	\$ 9,624
Receivables, net of allowances:					
Other	40	5	6,143	162	1,009
Due from U.S. Government	-	-	7,157	-	-
Due from other Funds	3	-	56	-	1,691
Inventories, at cost	-	3,498	-	-	-
Other current assets	4,112	-	19	-	1,673
Total Current Assets	<u>59,562</u>	<u>4,138</u>	<u>341,875</u>	<u>1,066</u>	<u>13,997</u>
Noncurrent Assets:					
Capital assets:					
Land and other non-depreciable	-	-	-	-	109
Buildings, equipment, and other depreciable, net of accumulated depreciation	145	47,794	23	1,523	3,278
Total Noncurrent Assets	<u>145</u>	<u>47,794</u>	<u>23</u>	<u>1,523</u>	<u>3,387</u>
Total Assets	<u>59,707</u>	<u>51,932</u>	<u>341,898</u>	<u>2,589</u>	<u>17,384</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	2,362	15	95,787	3	1,163
Accrued liabilities	212	223	51	19	150
Due to other Funds	321	-	59	-	3
Unearned deferred revenue	-	-	-	-	32
Current portion of accrued insurance losses	53,287	-	-	-	-
Current portion of other long-term liabilities	259	571	195	79	478
Total Current Liabilities	<u>56,441</u>	<u>809</u>	<u>96,092</u>	<u>101</u>	<u>1,826</u>
Noncurrent Liabilities:					
Accrued insurance losses	311,476	-	-	-	-
Other long-term liabilities	-	63	-	-	-
Total Noncurrent Liabilities	<u>311,476</u>	<u>63</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>367,917</u>	<u>872</u>	<u>96,092</u>	<u>101</u>	<u>1,826</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	145	47,794	23	1,523	3,387
Unrestricted (deficit)	(308,355)	3,266	245,783	965	12,171
Total Net Assets	<u>\$ (308,210)</u>	<u>\$ 51,060</u>	<u>\$ 245,806</u>	<u>\$ 2,488</u>	<u>\$ 15,558</u>

RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 3,158	\$ 271	\$ 398,499
-	631	7,990
-	-	7,157
-	1,002	2,752
-	50	3,548
-	14	5,818
<u>3,158</u>	<u>1,968</u>	<u>425,764</u>
-	-	109
-	9,889	62,652
-	9,889	62,761
<u>3,158</u>	<u>11,857</u>	<u>488,525</u>
-	849	100,179
-	13	668
-	-	383
-	-	32
-	-	53,287
10,156	41	11,779
<u>10,156</u>	<u>903</u>	<u>166,328</u>
-	-	311,476
137,329	-	137,392
<u>137,329</u>	<u>-</u>	<u>448,868</u>
<u>147,485</u>	<u>903</u>	<u>615,196</u>
-	9,889	62,761
(144,327)	1,065	(189,432)
<u>\$ (144,327)</u>	<u>\$ 10,954</u>	<u>\$ (126,671)</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION	TECHNOLOGY
<b>OPERATING REVENUES</b>					
Sales and charges for services	\$ 105,697	\$ 28,028	\$ 829,534	\$ 1,932	\$ 22,907
Other	-	72	-	-	2
Total Operating Revenues	<u>105,697</u>	<u>28,100</u>	<u>829,534</u>	<u>1,932</u>	<u>22,909</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	-	14,223	687,287	39	5,723
Personal services	11,061	11,489	2,497	917	7,707
Contractual services	20,195	37	1,175	493	1,467
Depreciation and amortization	34	7,490	7	1,281	1,633
Insurance	45,181	-	414	16	241
Other	7,238	943	426	376	1,227
Total Operating Expenses	<u>83,709</u>	<u>34,182</u>	<u>691,806</u>	<u>3,122</u>	<u>17,998</u>
Operating Income (Loss)	<u>21,988</u>	<u>(6,082)</u>	<u>137,728</u>	<u>(1,190)</u>	<u>4,911</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Gain (loss) on sale of capital assets	-	83	-	3	19
Investment income	-	23	-	-	-
Other non-operating revenue	272	472	-	-	-
Interest expense	-	(2)	-	-	-
Other non-operating expense	-	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>272</u>	<u>576</u>	<u>-</u>	<u>3</u>	<u>19</u>
Income (Loss) Before Contributions and Transfers	<u>22,260</u>	<u>(5,506)</u>	<u>137,728</u>	<u>(1,187)</u>	<u>4,930</u>
Capital grants and contributions	-	13,380	-	-	-
Transfers out	(29,646)	(2,667)	(40,609)	(55)	(1,130)
Change in Net Assets	(7,386)	5,207	97,119	(1,242)	3,800
Total Net Assets - Beginning	<u>(300,824)</u>	<u>45,853</u>	<u>148,687</u>	<u>3,730</u>	<u>11,758</u>
Total Net Assets - Ending	<u>\$ (308,210)</u>	<u>\$ 51,060</u>	<u>\$ 245,806</u>	<u>\$ 2,488</u>	<u>\$ 15,558</u>

RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 12,540	\$ 9,175	\$ 1,009,813
-	-	74
<u>12,540</u>	<u>9,175</u>	<u>1,009,887</u>
32,619	5,615	745,506
69	635	34,375
3	79	23,449
-	1,888	12,333
2	614	46,468
-	657	10,867
<u>32,693</u>	<u>9,488</u>	<u>872,998</u>
<u>(20,153)</u>	<u>(313)</u>	<u>136,889</u>
-	(21)	84
-	-	23
-	-	744
-	-	(2)
-	(158)	(158)
-	(179)	691
<u>(20,153)</u>	<u>(492)</u>	<u>137,580</u>
-	555	13,935
-	(33)	(74,140)
(20,153)	30	77,375
<u>(124,174)</u>	<u>10,924</u>	<u>(204,046)</u>
\$ (144,327)	\$ 10,954	\$ (126,671)

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services / premiums	\$ 105,715	\$ 27,892	\$ 827,111	\$ 2,113
Payments to suppliers or insurance companies	(70,904)	(15,478)	(678,992)	(928)
Payments to employees	(11,082)	(11,915)	(2,565)	(920)
Payments to retirees	-	-	-	-
Other receipts	272	72	-	-
Net Cash Provided by Operating Activities	<u>24,001</u>	<u>571</u>	<u>145,554</u>	<u>265</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers to other Funds	(29,646)	(2,667)	(40,609)	(55)
Net Cash (Used) by Non-capital Financing Activities	<u>(29,646)</u>	<u>(2,667)</u>	<u>(40,609)</u>	<u>(55)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	685	-	4
Receipts from insurance recoveries	-	472	-	-
Acquisition and construction of capital assets	(126)	(73)	(25)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(126)</u>	<u>1,084</u>	<u>(25)</u>	<u>4</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends from investments	-	21	-	-
Net Cash Provided by Investing Activities	<u>-</u>	<u>21</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,771)	(991)	104,920	214
Cash and Cash Equivalents - Beginning	61,178	1,626	223,580	690
Cash and Cash Equivalents - Ending	<u>\$ 55,407</u>	<u>\$ 635</u>	<u>\$ 328,500</u>	<u>\$ 904</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 21,988	\$ (6,082)	\$ 137,728	\$ (1,190)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	34	7,490	7	1,281
Miscellaneous income	272	-	-	-
Net changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	20	(5)	1,833	181
(Increase) in due from U.S. Government	-	-	(4,180)	-
(Increase) in due from other Funds	(2)	-	(56)	-
(Increase) in inventories, at cost	-	(220)	-	-
(Increase) decrease in other assets	(526)	-	(19)	-
Increase (decrease) in accounts payable	211	(104)	11,356	(4)
(Decrease) in accrued liabilities	(23)	(379)	(89)	(29)
Increase (decrease) in due to other Funds	65	(132)	(1,027)	-
Increase (decrease) in deferred revenues	-	-	(20)	-
Increase in accrued insurance losses	1,960	-	-	-
Increase (decrease) in other liabilities	2	3	21	26
Net Cash Provided by Operating Activities	<u>\$ 24,001</u>	<u>\$ 571</u>	<u>\$ 145,554</u>	<u>\$ 265</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>				
Contribution of capital assets to other Funds	\$ -	\$ -	\$ -	\$ -
Contribution of capital assets from other Funds	-	13,380	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ 13,380</u>	<u>\$ -</u>	<u>\$ -</u>

TECHNOLOGY	RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 22,718	\$ 12,540	\$ 8,614	\$ 1,006,703
(7,907)	(5)	(6,702)	(780,916)
(7,994)	(69)	(650)	(35,195)
-	(12,160)	-	(12,160)
-	-	-	344
<u>6,817</u>	<u>306</u>	<u>1,262</u>	<u>178,776</u>

(1,130)	-	(33)	(74,140)
<u>(1,130)</u>	<u>-</u>	<u>(33)</u>	<u>(74,140)</u>

-	-	200	889
-	-	-	472
(614)	-	(2,349)	(3,187)

<u>(614)</u>	<u>-</u>	<u>(2,149)</u>	<u>(1,826)</u>
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-	-	-	21
<u>-</u>	<u>-</u>	<u>-</u>	<u>21</u>

5,073	306	(920)	102,831
4,551	2,852	1,191	295,668
<u>\$ 9,624</u>	<u>\$ 3,158</u>	<u>\$ 271</u>	<u>\$ 398,499</u>

\$ 4,911	\$ (20,153)	\$ (313)	\$ 136,889
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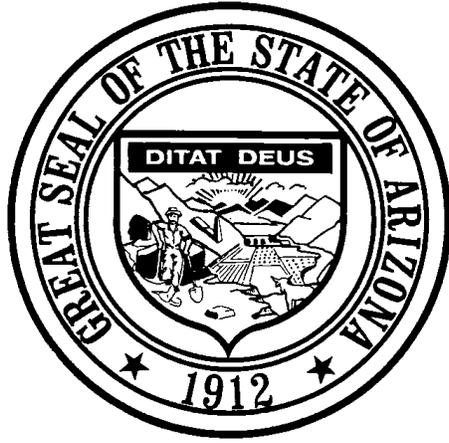
1,633	-	1,888	12,333
-	-	-	272

4	-	(70)	1,963
-	-	-	(4,180)
(227)	-	(491)	(776)
-	-	(11)	(231)
376	-	(5)	(174)
374	-	279	12,112
(272)	-	(24)	(816)
1	-	-	(1,093)
32	-	-	12
-	-	-	1,960
(15)	20,459	9	20,505

<u>\$ 6,817</u>	<u>\$ 306</u>	<u>\$ 1,262</u>	<u>\$ 178,776</u>
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\$ -	\$ -	\$ (158)	\$ (158)
<u>-</u>	<u>-</u>	<u>555</u>	<u>13,935</u>

<u>\$ -</u>	<u>\$ -</u>	<u>\$ 397</u>	<u>\$ 13,777</u>
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# **PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

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

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

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

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

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

*Other Employee Benefit Trust Funds account for health insurance premium subsidies and long-term disability benefits paid by the ASRS to State employees and employees of other governmental entities participating in the plans.*

**The Health Benefit Supplement Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

**The Long-Term Disability Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for long term disability benefits to eligible participants.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	PENSION TRUST FUNDS			
	ASRS	PSPRS	EORP	CORP
<b>ASSETS</b>				
Cash	\$ 25,000	\$ 102,676	\$ 5,899	\$ 26,714
Receivables, net of allowances:				
Accrued interest and dividends	64,685	4,668	272	1,188
Securities sold	421,021	40,987	2,391	10,430
Forward contracts receivable	270,531	-	-	-
Contributions	34,305	13,038	544	1,595
Court fees	-	-	730	-
Due from other Funds	-	-	-	-
Other	6,002	2,517	988	9
Total receivables	<u>796,544</u>	<u>61,210</u>	<u>4,925</u>	<u>13,222</u>
Investments, at fair value:				
Temporary investments	1,415,279	-	-	-
Fixed income securities	5,084,640	681,837	39,774	173,505
Corporate stocks	16,432,595	1,680,411	98,024	427,608
Global tactical asset allocation	-	476,061	27,770	121,142
Real estate	1,365,978	643,119	37,561	163,243
Private equity	1,275,974	514,147	29,992	130,833
Opportunistic investments	625,572	434,273	25,333	110,508
Collateral investment pool	47,958	102,112	5,957	25,984
Other investments	-	489,458	28,550	124,551
Total investments	<u>26,247,996</u>	<u>5,021,418</u>	<u>292,961</u>	<u>1,277,374</u>
Prepaid benefits	184,805	-	-	-
Property and equipment, net of accumulated depreciation	-	3,751	278	654
Total Assets	<u>27,254,345</u>	<u>5,189,055</u>	<u>304,063</u>	<u>1,317,964</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	31,853	545	468	2,021
Payable for securities purchased	508,281	11,710	683	2,980
Obligation under securities loan agreements	47,958	102,112	5,957	25,984
Forward contracts payable	238,976	-	-	-
Due to other Funds	25,183	-	-	-
Total Liabilities	<u>852,251</u>	<u>114,367</u>	<u>7,108</u>	<u>30,985</u>
<b>NET ASSETS</b>				
Held in Trust for:				
Pension benefits	26,402,094	5,074,688	296,955	1,286,979
Other post-employment benefits	-	-	-	-
Total Net Assets	<u>\$ 26,402,094</u>	<u>\$ 5,074,688</u>	<u>\$ 296,955</u>	<u>\$ 1,286,979</u>

OTHER EMPLOYEE  
BENEFIT TRUST FUNDS

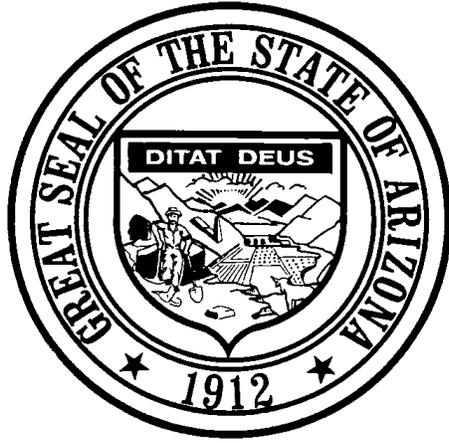
HEALTH BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	TOTAL
\$ 748	\$ -	\$ 161,037
2,849	-	73,662
18,542	-	493,371
11,914	-	282,445
1,066	808	51,356
-	-	730
22,572	2,781	25,353
15,599	3,583	28,698
<u>72,542</u>	<u>7,172</u>	<u>955,615</u>
83,299	1,776	1,500,354
226,271	64,877	6,270,904
720,889	183,941	19,543,468
-	-	624,973
59,963	-	2,269,864
57,401	-	2,008,347
27,971	-	1,223,657
2,112	-	184,123
-	-	642,559
<u>1,177,906</u>	<u>250,594</u>	<u>34,268,249</u>
5,927	-	190,732
-	-	4,683
<u>1,257,123</u>	<u>257,766</u>	<u>35,580,316</u>
19,282	273	54,442
22,385	-	546,039
2,112	-	184,123
10,525	-	249,501
-	170	25,353
<u>54,304</u>	<u>443</u>	<u>1,059,458</u>
-	-	33,060,716
<u>1,202,819</u>	<u>257,323</u>	<u>1,460,142</u>
<u>\$ 1,202,819</u>	<u>\$ 257,323</u>	<u>\$ 34,520,858</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	PENSION TRUST FUNDS			
	ASRS	PSPRS	EORP	CORP
<b>ADDITIONS:</b>				
Member contributions	\$ 905,968	\$ 112,645	\$ 6,859	\$ 51,968
Employer contributions	852,167	297,316	11,945	56,202
Federal Government reimbursement	-	-	-	-
Retrospective rate adjustment reimbursement	-	-	-	-
Member purchase of service credit	51,423	13,736	661	851
Court fees	-	-	8,880	-
Investment income:				
Net increase (decrease) in fair value of investments	(402,858)	(87,847)	(5,392)	(21,977)
Interest income	192,117	11,061	660	2,759
Dividends	282,677	38,836	2,298	9,803
Other investment income	378,541	18,926	1,132	4,791
Securities lending income	4,872	1,342	80	338
Total investment income (loss)	455,349	(17,682)	(1,222)	(4,286)
Less investment expenses:				
Investment activity expenses	131,853	23,780	1,407	6,004
Securities lending expenses	626	200	12	50
Net investment income (loss)	322,870	(41,662)	(2,641)	(10,340)
Other additions	2,236	540	149	368
Total Additions	2,134,664	382,575	25,853	99,049
<b>DEDUCTIONS:</b>				
Retirement, disability, and survivor benefits	2,327,678	507,182	43,537	87,978
Refunds to withdrawing members, including interest	207,289	12,377	90	25,744
Administrative expense	31,052	4,890	288	1,183
Other deductions	5,774	81	-	963
Total Deductions	2,571,793	524,530	43,915	115,868
Change in net assets held in trust for:				
Pension benefits	(437,129)	(141,955)	(18,062)	(16,819)
Other post-employment benefits	-	-	-	-
Net Assets - Beginning	26,839,223	5,216,643	315,017	1,303,798
Net Assets - Ending	\$ 26,402,094	\$ 5,074,688	\$ 296,955	\$ 1,286,979

OTHER EMPLOYEE  
BENEFIT TRUST FUNDS

HEALTH		
BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	TOTAL
\$ -	\$ 20,998	\$ 1,098,438
54,463	20,998	1,293,091
19,978	-	19,978
15,495	-	15,495
-	-	66,671
-	-	8,880
(18,771)	2,619	(534,226)
8,534	1	215,132
12,509	-	346,123
16,827	4	420,221
215	-	6,847
<u>19,314</u>	<u>2,624</u>	<u>454,097</u>
5,847	205	169,096
28	-	916
<u>13,439</u>	<u>2,419</u>	<u>284,085</u>
-	-	3,293
<u>103,375</u>	<u>44,415</u>	<u>2,789,931</u>
93,915	65,190	3,125,480
-	-	245,500
1,370	2,740	41,523
-	17	6,835
<u>95,285</u>	<u>67,947</u>	<u>3,419,338</u>
-	-	(613,965)
8,090	(23,532)	(15,442)
<u>1,194,729</u>	<u>280,855</u>	<u>35,150,265</u>
<u>\$ 1,202,819</u>	<u>\$ 257,323</u>	<u>\$ 34,520,858</u>



## INVESTMENT TRUST FUNDS

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

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

**Local Government Investment Pool** is an Investment Trust Account composed of corporate debt, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

**Local Government Investment Pool – Medium-Term** is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

**Local Government Investment Pool – FF&C** is an Investment Trust Account composed of corporate notes, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

**Local Government Investment Pool – Medium-Term FF&C** is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

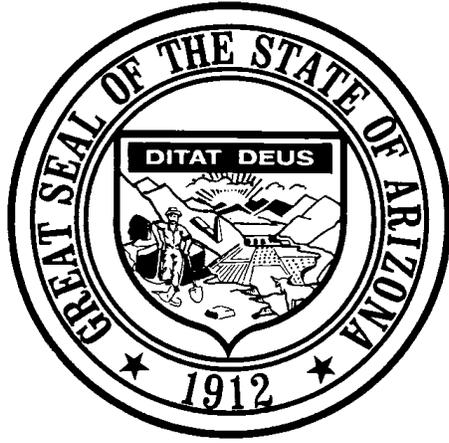
**Lehman Brothers Pool** is an Investment Trust Account composed of the Local Government Investment Pool's share of the Lehman Brothers bond value that was transferred to this pool due to Lehman Brothers filing for Chapter 11 bankruptcy. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities held by the Local Government Investment Pool.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
INVESTMENT TRUST FUNDS  
JUNE 30, 2012  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL- MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL- FF&C	LOCAL GOVERNMENT INVESTMENT POOL- MEDIUM-TERM FF&C	LEHMAN BROTHERS POOL	TOTAL
<b>ASSETS</b>							
Receivables, net of allowances:							
Accrued interest and dividends	\$ 1,494	\$ 92	\$ 788	\$ 111	\$ 297	\$ -	\$ 2,782
Total receivables	<u>1,494</u>	<u>92</u>	<u>788</u>	<u>111</u>	<u>297</u>	<u>-</u>	<u>2,782</u>
Investments, at fair value:							
Fixed income securities	285,167	1,126,414	186,967	1,503,338	115,029	6,883	3,223,798
Collateral investment pool	16,663	471	12,226	1,471	76	-	30,907
Total investments	<u>301,830</u>	<u>1,126,885</u>	<u>199,193</u>	<u>1,504,809</u>	<u>115,105</u>	<u>6,883</u>	<u>3,254,705</u>
Total Assets	<u>303,324</u>	<u>1,126,977</u>	<u>199,981</u>	<u>1,504,920</u>	<u>115,402</u>	<u>6,883</u>	<u>3,257,487</u>
<b>LIABILITIES</b>							
Payable for securities purchased	-	-	4,191	-	-	-	4,191
Management fee payable	14	62	9	84	6	-	175
Obligations under securities loan agreements	16,663	471	12,226	1,471	76	-	30,907
Total Liabilities	<u>16,677</u>	<u>533</u>	<u>16,426</u>	<u>1,555</u>	<u>82</u>	<u>-</u>	<u>35,273</u>
<b>NET ASSETS</b>							
Held in trust for pool participants	<u>\$ 286,647</u>	<u>\$ 1,126,444</u>	<u>\$ 183,555</u>	<u>\$ 1,503,365</u>	<u>\$ 115,320</u>	<u>\$ 6,883</u>	<u>\$ 3,222,214</u>
Net assets consist of:							
Participant shares outstanding	280,247	1,126,444	176,242	1,503,365	113,531	30,572	3,230,401
Participants' net asset value (net assets/shares outstanding)	\$ 1.02	\$ 1.00	\$ 1.04	\$ 1.00	\$ 1.02	\$ 0.23	

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL- MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL- FF&C	LOCAL GOVERNMENT INVESTMENT POOL- MEDIUM-TERM FF&C	LEHMAN BROTHERS POOL	TOTAL
<b>ADDITIONS:</b>							
Investment income:							
Net increase (decrease) in fair value of investments	\$ 1,687	\$ 11	\$ 549	\$ (167)	\$ 286	\$ 462	\$ 2,828
Interest income	6,637	3,407	3,148	2,081	1,376	-	16,649
Securities lending income	40	7	24	197	11	-	279
Total investment income	8,364	3,425	3,721	2,111	1,673	462	19,756
Less: Investment activity expenses							
Investment activity expenses	166	838	96	958	59	-	2,117
Securities lending expenses	23	5	15	141	5	-	189
Net investment income	8,175	2,582	3,610	1,012	1,609	462	17,450
Capital share and individual account transactions:							
Shares sold	49,826	2,307,481	58,653	1,989,429	34,915	-	4,440,304
Reinvested interest income	6,236	2,572	2,788	1,171	1,158	-	13,925
Shares redeemed	(44,698)	(2,603,365)	(18,073)	(2,255,370)	-	-	(4,921,506)
Transfers in (out)	-	1,962	-	-	-	(1,962)	-
Net capital share and individual account transactions	11,364	(291,350)	43,368	(264,770)	36,073	(1,962)	(467,277)
Total Additions	19,539	(288,768)	46,978	(263,758)	37,682	(1,500)	(449,827)
<b>DEDUCTIONS:</b>							
Dividends to investors	8,175	2,582	3,610	1,012	1,609	-	16,988
Total Deductions	8,175	2,582	3,610	1,012	1,609	-	16,988
Change in net assets held in trust for pool participants	11,364	(291,350)	43,368	(264,770)	36,073	(1,500)	(466,815)
Net Assets - Beginning	275,283	1,417,794	140,187	1,768,135	79,247	8,383	3,689,029
Net Assets - Ending	\$ 286,647	\$ 1,126,444	\$ 183,555	\$ 1,503,365	\$ 115,320	\$ 6,883	\$ 3,222,214



## AGENCY FUNDS

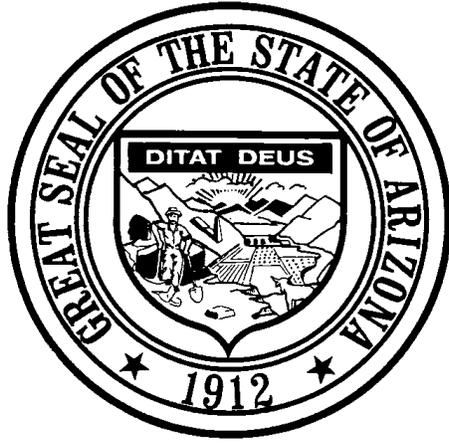
*Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, and payment of the health insurance subsidy by the PSPRS, the EORP, and the CORP, where the State acts as an agent for distribution to other governmental units or organizations.*

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

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

**The Health Insurance Subsidy Fund** accounts for other post-employment benefit payments of the health insurance subsidy by the PSPRS, the EORP, and the CORP for eligible retired and disabled members.

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



STATE OF ARIZONA  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 JUNE 30, 2012  
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ -	\$ -	\$ 62,002	\$ 62,002
Cash and pooled investments with State Treasurer	-	18,324	308,331	326,655
Collateral investment pool	-	-	5,458	5,458
Short-term investments	-	-	3,210	3,210
Receivables, net of allowances:				
Accrued interest	-	-	1	1
Other	-	-	1	1
Due from others	-	-	82,907	82,907
Custodial securities in safekeeping	3,594,022	-	29,658	3,623,680
Other assets	-	-	2,228	2,228
<b>Total Assets</b>	<b>\$ 3,594,022</b>	<b>\$ 18,324</b>	<b>\$ 493,796</b>	<b>\$ 4,106,142</b>
<b>LIABILITIES</b>				
Obligation under securities loan agreements	\$ -	\$ -	\$ 5,458	\$ 5,458
Due to U.S. Government	-	-	13,809	13,809
Due to local governments	-	47	141,399	141,446
Due to others	3,594,022	18,277	333,130	3,945,429
<b>Total Liabilities</b>	<b>\$ 3,594,022</b>	<b>\$ 18,324</b>	<b>\$ 493,796</b>	<b>\$ 4,106,142</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Thousands)

	BALANCE JULY 1, 2011	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2012
<b>TREASURER CUSTODIAL SECURITIES FUND</b>				
Assets:				
Custodial securities in safekeeping	\$ 3,578,443	\$ 6,585,737	\$ 6,570,158	\$ 3,594,022
Total Assets	<u>\$ 3,578,443</u>	<u>\$ 6,585,737</u>	<u>\$ 6,570,158</u>	<u>\$ 3,594,022</u>
Liabilities:				
Due to others	\$ 3,578,443	\$ 6,585,737	\$ 6,570,158	\$ 3,594,022
Total Liabilities	<u>\$ 3,578,443</u>	<u>\$ 6,585,737</u>	<u>\$ 6,570,158</u>	<u>\$ 3,594,022</u>
<b>OTHER TREASURER FUNDS</b>				
Assets:				
Cash and pooled investments with State Treasurer	\$ 13,945	\$ 146,706	\$ 142,327	\$ 18,324
Total Assets	<u>\$ 13,945</u>	<u>\$ 146,706</u>	<u>\$ 142,327</u>	<u>\$ 18,324</u>
Liabilities:				
Due to local governments	\$ 47	\$ 85,615	\$ 85,615	\$ 47
Due to others	13,898	54,139	49,760	18,277
Total Liabilities	<u>\$ 13,945</u>	<u>\$ 139,754</u>	<u>\$ 135,375</u>	<u>\$ 18,324</u>
<b>HEALTH INSURANCE SUBSIDY FUND</b>				
Assets:				
Cash	\$ -	\$ 17,318	\$ 17,318	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 17,318</u>	<u>\$ 17,318</u>	<u>\$ -</u>
Liabilities:				
Benefits payable	\$ -	\$ 17,318	\$ 17,318	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 17,318</u>	<u>\$ 17,318</u>	<u>\$ -</u>

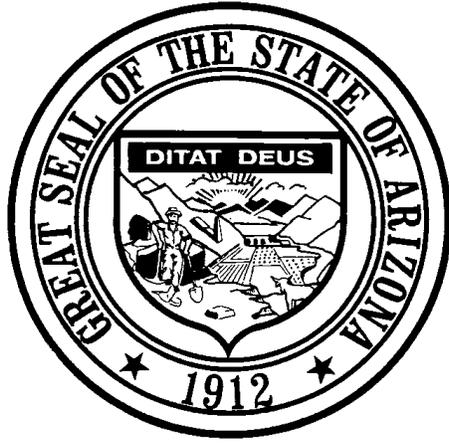
(Continued)

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012  
 (Expressed in Thousands)

	BALANCE JULY 1, 2011	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2012
<b>OTHER FUNDS</b>				
Assets:				
Cash	\$ 22,649	\$ 788,519	\$ 749,166	\$ 62,002
Cash and pooled investments with State Treasurer	188,673	5,080,978	4,961,320	308,331
Collateral investment pool	-	5,458	-	5,458
Short-term investments	3,136	3,210	3,136	3,210
Receivables, net of allowances:				
Accrued interest	1	-	-	1
Other	-	14	13	1
Due from others	81,018	82,907	81,018	82,907
Custodial securities in safekeeping	68,669	29,658	68,669	29,658
Other assets	3,803	2,228	3,803	2,228
<b>Total Assets</b>	<b>\$ 367,949</b>	<b>\$ 5,992,972</b>	<b>\$ 5,867,125</b>	<b>\$ 493,796</b>
Liabilities:				
Obligation under securities				
loan agreements	\$ -	\$ 5,458	\$ -	\$ 5,458
Due to U.S. Government	-	13,809	-	13,809
Due to local governments	136,500	6,563,520	6,558,621	141,399
Due to others	231,449	1,300,147	1,198,466	333,130
<b>Total Liabilities</b>	<b>\$ 367,949</b>	<b>\$ 7,882,934</b>	<b>\$ 7,757,087</b>	<b>\$ 493,796</b>

**COMBINED TOTAL ALL AGENCY FUNDS**

Assets:				
Cash	\$ 22,649	\$ 805,837	\$ 766,484	\$ 62,002
Cash and pooled investments with State Treasurer	202,618	5,227,684	5,103,647	326,655
Collateral investment pool	-	5,458	-	5,458
Short-term investments	3,136	3,210	3,136	3,210
Receivables, net of allowances:				
Accrued interest	1	-	-	1
Other	-	14	13	1
Due from others	81,018	82,907	81,018	82,907
Custodial securities in safekeeping	3,647,112	6,615,395	6,638,827	3,623,680
Other assets	3,803	2,228	3,803	2,228
<b>Total Assets</b>	<b>\$ 3,960,337</b>	<b>\$ 12,742,733</b>	<b>\$ 12,596,928</b>	<b>\$ 4,106,142</b>
Liabilities:				
Benefits payable	\$ -	\$ 17,318	\$ 17,318	\$ -
Obligation under securities				
loan agreements	-	5,458	-	5,458
Due to U.S. Government	-	13,809	-	13,809
Due to local governments	136,547	6,649,135	6,644,236	141,446
Due to others	3,823,790	7,940,023	7,818,384	3,945,429
<b>Total Liabilities</b>	<b>\$ 3,960,337</b>	<b>\$ 14,625,743</b>	<b>\$ 14,479,938</b>	<b>\$ 4,106,142</b>



## **NON-MAJOR COMPONENT UNITS**

*Component units are legally separate entities for which the State is considered to be financially accountable. GASB Statement 14 has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.*

**The Arizona Power Authority** purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws.

**The Rio Nuevo Multipurpose Facilities District (Rio Nuevo)** utilizes tax incremental financing to help develop multipurpose facilities in the downtown Tucson area.

**The Greater Arizona Development Authority** provides cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects.

**The Arizona Commerce Authority** is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET ASSETS**  
NON-MAJOR COMPONENT UNITS  
JUNE 30, 2012  
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
<b>ASSETS</b>					
Current Assets:					
Cash	\$ -	\$ 14,820	\$ 97	\$ 9,687	\$ 24,604
Cash and pooled investments with State Treasurer	6,252	-	2,271	69,061	77,584
Collateral investment pool	-	-	-	2,716	2,716
Restricted investments held by trustee	4,383	-	-	-	4,383
Receivables, net of allowances:					
Taxes	-	5,524	-	-	5,524
Loans and notes	-	-	-	272	272
Other	3,902	-	-	191	4,093
Due from primary government	-	-	-	2,716	2,716
Other current assets	1,120	56	-	-	1,176
Total Current Assets	<u>15,657</u>	<u>20,400</u>	<u>2,368</u>	<u>84,643</u>	<u>123,068</u>
Noncurrent Assets:					
Restricted cash and pooled investments with State Treasurer	-	-	10,465	-	10,465
Cash held by trustee	-	21,300	-	-	21,300
Investments held by trustee	6,551	-	-	-	6,551
Loans and notes receivable, net of allowances	-	2,900	-	63	2,963
Other noncurrent assets	20,323	1,559	-	7	21,889
Capital assets:					
Land and other non-depreciable	-	7,768	-	-	7,768
Buildings, equipment, and other depreciable	1,329	34,669	-	1,164	37,162
Less: accumulated depreciation	(1,209)	(7,747)	-	(184)	(9,140)
Total Noncurrent Assets	<u>26,994</u>	<u>60,449</u>	<u>10,465</u>	<u>1,050</u>	<u>98,958</u>
Total Assets	<u>42,651</u>	<u>80,849</u>	<u>12,833</u>	<u>85,693</u>	<u>222,026</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	3,320	11,663	-	2,290	17,273
Accrued liabilities	432	100	-	-	532
Obligations under securities loan agreements	-	-	-	2,716	2,716
Current portion of long-term debt	4,810	7,771	-	-	12,581
Total Current Liabilities	<u>8,562</u>	<u>19,534</u>	<u>-</u>	<u>5,006</u>	<u>33,102</u>
Noncurrent Liabilities:					
Long-term debt	28,346	81,911	-	-	110,257
Total Noncurrent Liabilities	<u>28,346</u>	<u>81,911</u>	<u>-</u>	<u>-</u>	<u>110,257</u>
Total Liabilities	<u>36,908</u>	<u>101,445</u>	<u>-</u>	<u>5,006</u>	<u>143,359</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	120	29,054	-	980	30,154
Restricted for:					
Debt service	-	11,483	10,465	-	21,948
Loans and other financial assistance	-	-	-	22,656	22,656
Other	-	-	-	21,219	21,219
Unrestricted	5,623	(61,133)	2,368	35,832	(17,310)
Total Net Assets	<u>\$ 5,743</u>	<u>\$ (20,596)</u>	<u>\$ 12,833</u>	<u>\$ 80,687</u>	<u>\$ 78,667</u>

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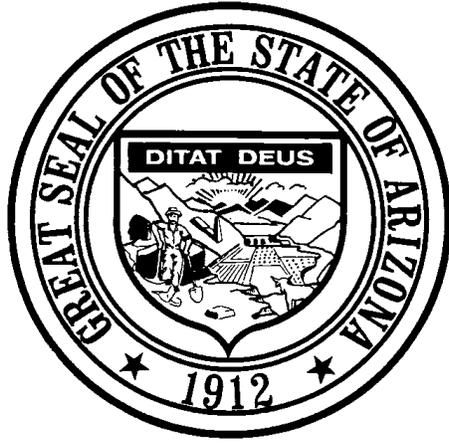
STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b><u>FUNCTIONS/PROGRAMS</u></b>			
Arizona Power Authority	\$ 33,537	\$ 34,862	\$ -
Rio Nuevo	13,340	3,823	-
Greater Arizona Development Authority	57	-	-
Arizona Commerce Authority	21,774	103	7,280
Total	<u>\$ 68,708</u>	<u>\$ 38,788</u>	<u>\$ 7,280</u>

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
\$ 1,325	\$ -	\$ -	\$ -	\$ 1,325
-	(9,517)	-	-	(9,517)
-	-	(57)	-	(57)
-	-	-	(14,391)	(14,391)
-	12,171	-	-	12,171
-	-	-	15,991	15,991
11	21	311	463	806
-	-	-	239	239
-	-	-	78,385	78,385
1	-	-	-	1
1,337	2,675	254	80,687	84,953
4,406	(23,271)	12,579	-	(6,286)
<u>\$ 5,743</u>	<u>\$ (20,596)</u>	<u>\$ 12,833</u>	<u>\$ 80,687</u>	<u>\$ 78,667</u>



## **NON-MAJOR UNIVERSITIES – AFFILIATED COMPONENT UNITS**

*Component units affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate Boards of Directors that meet the criteria established in GASB 39, with the exception of the Collegiate Golf Foundation, University Public Schools, Inc. (UPSI), 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 UPSI is included because it is a legally separate, tax-exempt organization that the State believes would be misleading to exclude due to its close affiliation with the State. The CRC is included because the U of A approves the budget; thus fiscal dependency exists.*

**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 use by students of the ASU.

**Sun Angel Foundation** receives funds primarily through donations, and contributes funds to the ASU for support of various athletic programs.

**Sun Angel Endowment** receives funds primarily through donations, with the annual earnings being used for support of various athletic programs at the ASU.

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

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

**The Arizona State University Alumni Association** receives funds primarily through donations, dues, and affinity partners and contributes funds to the ASU for support of various programs.

**Downtown Phoenix Student Housing, LLC** provides facilities for use by students of the ASU.

**University Public Schools, Inc.** operates four public schools designed to be on the forefront of education innovation and improvement, with the goal of developing educational models that can be scaled across the State and nation to improve the academic achievement of children.

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

**The University of Arizona Campus Research Corporation** was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park and related properties.

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2012  
(Expressed in Thousands)

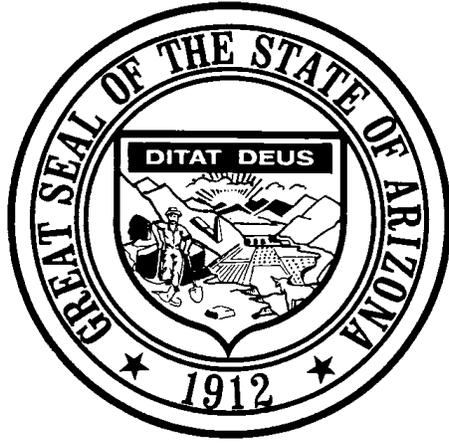
	NORTHERN ARIZONA UNIVERSITY FOUNDATION	NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORP.	MESA STUDENT HOUSING	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	COLLEGIATE GOLF FOUNDATION
<b>ASSETS</b>						
Cash and cash equivalent investments	\$ 2,318	\$ 12	\$ -	\$ 1,338	\$ 409	\$ 90
Receivables:						
Pledges receivable	6,170	-	-	4,753	-	-
Other receivables	126	179	-	204	-	68
Total receivables	6,296	179	-	4,957	-	68
Investments:						
Investments in securities	89,109	-	-	-	8,068	-
Other investments	3,063	-	-	-	934	-
Total investments	92,172	-	-	-	9,002	-
Net direct financing leases	2,893	46,010	-	-	-	-
Property and equipment, net of accumulated depreciation	5,377	-	-	19	-	-
Licenses	3,500	-	-	-	-	-
Other assets	5,574	1,316	-	211	30	165
Total Assets	118,130	47,517	-	6,525	9,441	323
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	2,353	176	-	177	20	460
Liability under endowment trust agreements	20,083	-	-	-	-	-
Long-term debt	-	45,983	-	-	-	-
Deferred revenue	5,452	23	-	32	-	91
Other liabilities	1,348	-	-	66	4,000	-
Total Liabilities	29,236	46,182	-	275	4,020	551
<b>NET ASSETS</b>						
Permanently restricted	41,068	-	-	-	1,842	-
Temporarily restricted	18,356	-	-	6,002	477	-
Unrestricted (deficit)	29,470	1,335	-	248	3,102	(228)
Total Net Assets	\$ 88,894	\$ 1,335	\$ -	\$ 6,250	\$ 5,421	\$ (228)

ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	DOWNTOWN PHOENIX STUDENT HOUSING	UNIVERSITY PUBLIC SCHOOLS	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	TOTAL
\$ 1,587	\$ 181	\$ 795	\$ 1,702	\$ 1,626	\$ 6,418	\$ 1,649	\$ 18,125
-	135	-	100	673	-	79	11,910
12,008	74	205	146	-	1,190	1,274	15,474
12,008	209	205	246	673	1,190	1,353	27,384
980	13,559	13,311	-	7,416	-	5,627	138,070
-	-	-	-	167	-	-	4,164
980	13,559	13,311	-	7,583	-	5,627	142,234
-	-	-	-	-	-	-	48,903
5,631	-	107,590	399	-	16,840	15	135,871
-	-	-	-	-	-	-	3,500
2,010	46	6,164	33	7	6,779	102	22,437
22,216	13,995	128,065	2,380	9,889	31,227	8,746	398,454
27	94	11,689	668	169	1,456	140	17,429
-	-	-	-	476	-	-	20,559
8,660	-	140,784	20	-	9,330	14	204,791
12,752	31	21	1,456	-	3,356	2,931	26,145
1,551	4	1,247	158	-	1,306	-	9,680
22,990	129	153,741	2,302	645	15,448	3,085	278,604
-	-	-	-	4,415	-	-	47,325
-	342	-	116	4,186	-	-	29,479
(774)	13,524	(25,676)	(38)	643	15,779	5,661	43,046
\$ (774)	\$ 13,866	\$ (25,676)	\$ 78	\$ 9,244	\$ 15,779	\$ 5,661	\$ 119,850

STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORP.	MESA STUDENT HOUSING	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	COLLEGIATE GOLF FOUNDATION
<b>REVENUES</b>						
Contributions	\$ 7,906	\$ -	\$ -	\$ 8,786	\$ -	\$ -
Rental revenue	-	35	4,937	-	-	-
Sales and services	-	-	-	94	-	3,827
Net investment income (loss)	(787)	2,143	74	21	(116)	-
Licensing revenue	1,281	-	-	-	-	-
Other revenues	1,544	-	193	921	1	-
<b>Total Revenues</b>	<b>9,944</b>	<b>2,178</b>	<b>5,204</b>	<b>9,822</b>	<b>(115)</b>	<b>3,827</b>
<b>EXPENSES</b>						
Program services:						
Payments to Universities	-	-	-	10,663	-	-
Leasing related expenses	-	-	-	-	-	-
Payments on behalf of Universities	-	-	-	-	-	-
Other program services	6,489	-	-	-	-	-
Management and general expenses	634	34	4,459	1,186	130	3,858
Fundraising expenses	2,611	-	-	-	-	-
Interest	-	2,147	551	-	215	-
Depreciation and amortization	1,630	60	624	-	-	13
Other expenses	-	-	328	888	-	-
<b>Total Expenses</b>	<b>11,364</b>	<b>2,241</b>	<b>5,962</b>	<b>12,737</b>	<b>345</b>	<b>3,871</b>
Increase (decrease) in Net Assets, before extraordinary items	(1,420)	(63)	(758)	(2,915)	(460)	(44)
Extraordinary items (Primarily equity transfers)	-	-	1,913	(58)	-	(48)
Increase (decrease) in Net Assets, after extraordinary items	(1,420)	(63)	1,155	(2,973)	(460)	(92)
Net Assets - Beginning	90,314	1,398	(1,155)	9,223	5,881	(136)
Net Assets - Ending	\$ 88,894	\$ 1,335	\$ -	\$ 6,250	\$ 5,421	\$ (228)

ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	DOWNTOWN PHOENIX STUDENT HOUSING	UNIVERSITY PUBLIC SCHOOLS	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	TOTAL
\$ -	\$ 2,500	\$ -	\$ 2,393	\$ 965	\$ -	\$ 209	\$ 22,759
5,584	-	8,666	-	-	12,032	-	31,254
-	2,586	-	598	-	-	849	7,954
7	(376)	19	1	(63)	6	109	1,038
-	-	-	-	-	-	-	1,281
71	75	414	8,873	73	2,025	2,674	16,864
5,662	4,785	9,099	11,865	975	14,063	3,841	81,150
5,060	-	-	-	-	-	-	15,723
-	-	-	-	-	10,445	-	10,445
-	-	-	-	1,735	-	2,679	4,414
-	-	-	-	-	-	-	6,489
1,111	5,341	2,697	12,167	65	1,060	630	33,372
-	-	-	-	32	-	206	2,849
389	-	7,238	-	-	-	-	10,540
436	-	5,157	-	-	-	-	7,920
158	89	638	-	21,267	-	-	23,368
7,154	5,430	15,730	12,167	23,099	11,505	3,515	115,120
(1,492)	(645)	(6,631)	(302)	(22,124)	2,558	326	(33,970)
-	-	-	-	-	-	-	1,807
(1,492)	(645)	(6,631)	(302)	(22,124)	2,558	326	(32,163)
718	14,511	(19,045)	380	31,368	13,221	5,335	152,013
\$ (774)	\$ 13,866	\$ (25,676)	\$ 78	\$ 9,244	\$ 15,779	\$ 5,661	\$ 119,850



# STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)



## STATISTICAL SECTION

This part of the State of Arizona's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

**Financial Trends** – *Schedules 1 thru 4* contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

**Revenue Capacity** – *Schedules 5 thru 9* contain information to help the reader assess the State's most significant own-source revenues, the sales tax, and personal income tax.

**Debt Capacity** – *Schedules 10 thru 22* present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

**Demographic and Economic Information** – *Schedules 23 and 24* offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place and to help make comparisons over time and among other governments.

**Operating Information** – *Schedules 25 thru 27* contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

STATE OF ARIZONA  
SCHEDULE 1  
**NET ASSETS BY COMPONENT (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>GOVERNMENTAL ACTIVITIES:</b>					
Invested in capital assets, net of related debt	\$ 16,940,512	\$ 16,326,569	\$ 15,738,121	\$ 15,094,719	\$ 14,530,867
Restricted	5,349,966	5,125,527	4,648,280	3,990,594	4,987,365
Unrestricted	(3,351,315)	(4,243,824)	(4,155,346)	(2,984,628)	(1,105,246)
Total Governmental Activities Net Assets	<u>\$ 18,939,163</u>	<u>\$ 17,208,272</u>	<u>\$ 16,231,055</u>	<u>\$ 16,100,685</u>	<u>\$ 18,412,986</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Invested in capital assets, net of related debt	\$ 1,483,416	\$ 1,397,683	\$ 1,352,658	\$ 1,328,658	\$ 1,387,655
Restricted	496,444	501,437	550,102	1,085,399	1,581,212
Unrestricted	809,475	695,862	576,426	376,908	188,354
Total Business-type Activities Net Assets	<u>\$ 2,789,335</u>	<u>\$ 2,594,982</u>	<u>\$ 2,479,186</u>	<u>\$ 2,790,965</u>	<u>\$ 3,157,221</u>
<b>PRIMARY GOVERNMENT:</b>					
Invested in capital assets, net of related debt	\$ 18,423,928	\$ 17,724,252	\$ 17,090,779	\$ 16,423,377	\$ 15,918,522
Restricted	5,846,410	5,626,964	5,198,382	5,075,993	6,568,577
Unrestricted	(2,541,840)	(3,547,962)	(3,578,920)	(2,607,720)	(916,892)
Total Primary Government Net Assets	<u>\$ 21,728,498</u>	<u>\$ 19,803,254</u>	<u>\$ 18,710,241</u>	<u>\$ 18,891,650</u>	<u>\$ 21,570,207</u>

(1) This schedule reports using the accrual basis of accounting.

Fiscal Year				
2007, as restated	2006, as restated	2005, as restated	2004, as restated	2003, as restated
\$ 13,500,218	\$ 12,878,151	\$ 11,825,961	\$ 11,226,325	\$ 10,690,782
4,734,039	3,560,868	2,938,288	2,100,575	2,071,313
614,606	733,455	(463,515)	(684,492)	(799,587)
<u>\$ 18,848,863</u>	<u>\$ 17,172,474</u>	<u>\$ 14,300,734</u>	<u>\$ 12,642,408</u>	<u>\$ 11,962,508</u>
\$ 1,186,177	\$ 1,146,618	\$ 1,172,613	\$ 1,169,198	\$ 1,153,428
1,575,991	1,400,455	1,232,016	1,190,250	1,291,003
295,377	179,524	84,248	115,986	251,415
<u>\$ 3,057,545</u>	<u>\$ 2,726,597</u>	<u>\$ 2,488,877</u>	<u>\$ 2,475,434</u>	<u>\$ 2,695,846</u>
\$ 14,686,395	\$ 14,024,769	\$ 12,998,574	\$ 12,395,523	\$ 11,844,210
6,310,030	4,961,323	4,170,304	3,290,825	3,362,316
909,983	912,979	(379,267)	(568,506)	(548,172)
<u>\$ 21,906,408</u>	<u>\$ 19,899,071</u>	<u>\$ 16,789,611</u>	<u>\$ 15,117,842</u>	<u>\$ 14,658,354</u>

STATE OF ARIZONA  
SCHEDULE 2  
**CHANGES IN NET ASSETS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government	\$ 840,189	\$ 929,107	\$ 941,813	\$ 928,485	\$ 982,382
Health and welfare	11,992,408	12,558,119	13,090,357	12,055,439	10,884,297
Inspection and regulation	151,937	149,649	157,786	176,354	185,996
Education	5,331,848	5,467,543	5,706,667	6,084,342	6,242,173
Protection and safety	1,380,999	1,299,205	1,451,571	1,514,282	1,510,615
Transportation (2)	808,967	857,194	511,397	695,070	670,173
Natural resources	213,339	196,210	183,535	228,430	250,258
Intergovernmental revenue sharing	2,473,881	2,462,178	2,585,683	2,755,710	3,023,836
Interest on long-term debt	350,483	341,801	261,518	222,851	179,795
Total Governmental Activities Expenses	<u>23,544,051</u>	<u>24,261,006</u>	<u>24,890,327</u>	<u>24,660,963</u>	<u>23,929,525</u>
<b>Business-type Activities:</b>					
Universities	3,629,568	3,533,977	3,343,377	3,290,033	3,227,481
Unemployment Compensation	1,069,531	1,655,364	2,103,028	1,086,330	356,333
Industrial Commission Special Fund (3)	83,290	27,196	67,750	30,055	14,824
Lottery	496,830	439,069	432,150	395,950	372,740
Other	113,347	115,442	126,029	142,229	162,300
Total Business-type Activities Expenses	<u>5,392,566</u>	<u>5,771,048</u>	<u>6,072,334</u>	<u>4,944,597</u>	<u>4,133,678</u>
Total Primary Government Expenses	<u>\$ 28,936,617</u>	<u>\$ 30,032,054</u>	<u>\$ 30,962,661</u>	<u>\$ 29,605,560</u>	<u>\$ 28,063,203</u>
<b>PROGRAM REVENUES</b>					
<b>Governmental Activities:</b>					
Charges for services:					
General government	\$ 189,175	\$ 191,738	\$ 208,316	\$ 199,011	\$ 190,374
Inspection and regulation	150,557	149,890	143,329	153,642	159,857
Transportation (4)	108,877	114,453	123,372	138,520	149,560
Other activities	398,893	381,633	402,496	315,660	318,776
Operating grants and contributions (5)	11,357,470	12,580,013	13,735,263	10,620,642	9,190,910
Capital grants and contributions	778,572	745,559	576,027	553,198	523,898
Total Governmental Activities					
Program Revenues	<u>12,983,544</u>	<u>14,163,286</u>	<u>15,188,803</u>	<u>11,980,673</u>	<u>10,533,375</u>
<b>Business-type Activities:</b>					
Charges for services:					
Universities	1,752,509	1,601,077	1,432,055	1,272,694	1,167,696
Lottery	646,675	583,537	551,492	484,486	472,937
Other activities (6)	584,240	560,502	509,254	439,010	485,242
Operating grants and contributions	1,705,773	2,212,673	2,260,071	1,243,697	898,441
Capital grants and contributions	53,571	14,799	12,563	14,710	38,029
Total Business-type Activities					
Program Revenues	<u>4,742,768</u>	<u>4,972,588</u>	<u>4,765,435</u>	<u>3,454,597</u>	<u>3,062,345</u>
Total Primary Government					
Program Revenues	<u>\$ 17,726,312</u>	<u>\$ 19,135,874</u>	<u>\$ 19,954,238</u>	<u>\$ 15,435,270</u>	<u>\$ 13,595,720</u>
<b>NET (EXPENSE) REVENUE</b>					
Governmental activities	\$ (10,560,507)	\$ (10,097,720)	\$ (9,701,524)	\$ (12,680,290)	\$ (13,396,150)
Business-type activities	(649,798)	(798,460)	(1,306,899)	(1,490,000)	(1,071,333)
Total Primary Government Net (Expense)	<u>\$ (11,210,305)</u>	<u>\$ (10,896,180)</u>	<u>\$ (11,008,423)</u>	<u>\$ (14,170,290)</u>	<u>\$ (14,467,483)</u>

Fiscal Year

2007, as restated	2006, as restated	2005	2004, as restated	2003, as restated
\$ 802,659	\$ 781,542	\$ 646,452	\$ 726,525	\$ 694,173
9,789,699	9,057,733	8,494,206	7,717,148	6,848,087
175,609	159,766	149,238	138,281	141,673
5,984,196	5,304,555	4,853,458	4,703,685	4,795,566
1,401,513	1,279,129	1,171,340	1,059,047	982,839
583,304	386,777	589,966	731,522	598,375
193,862	187,947	184,538	162,366	175,312
2,864,543	2,658,636	2,335,828	2,144,438	2,159,691
191,674	172,439	182,852	176,035	135,775
<u>21,987,059</u>	<u>19,988,524</u>	<u>18,607,878</u>	<u>17,559,047</u>	<u>16,531,491</u>
2,960,790	2,762,557	2,540,193	2,355,418	2,181,311
248,111	226,171	292,127	397,657	455,685
23,669	(18,300)	106,295	167,331	73,586
363,508	377,104	317,226	303,996	263,321
176,486	136,894	120,629	109,944	107,740
<u>3,772,564</u>	<u>3,484,426</u>	<u>3,376,470</u>	<u>3,334,346</u>	<u>3,081,643</u>
<u>\$ 25,759,623</u>	<u>\$ 23,472,950</u>	<u>\$ 21,984,348</u>	<u>\$ 20,893,393</u>	<u>\$ 19,613,134</u>
\$ 200,495	\$ 161,664	\$ 139,486	\$ 140,791	\$ 106,876
158,022	146,191	133,073	133,510	120,045
158,019	134,068	88,296	114,097	112,466
281,796	279,836	256,804	248,446	192,332
8,536,030	7,941,223	7,544,370	6,981,748	5,940,007
354,255	388,646	497,140	421,251	460,364
<u>9,688,617</u>	<u>9,051,628</u>	<u>8,659,169</u>	<u>8,039,843</u>	<u>6,932,090</u>
1,069,339	962,967	863,042	778,047	675,089
462,200	468,697	397,561	366,582	322,267
518,922	474,801	440,646	305,221	259,676
883,373	852,788	834,421	836,076	810,549
27,981	30,056	19,774	18,513	23,090
<u>2,961,815</u>	<u>2,789,309</u>	<u>2,555,444</u>	<u>2,304,439</u>	<u>2,090,671</u>
<u>\$ 12,650,432</u>	<u>\$ 11,840,937</u>	<u>\$ 11,214,613</u>	<u>\$ 10,344,282</u>	<u>\$ 9,022,761</u>
\$ (12,298,442)	\$ (10,936,896)	\$ (9,948,709)	\$ (9,519,204)	\$ (9,599,401)
(810,749)	(695,117)	(821,026)	(1,029,907)	(990,972)
<u>\$ (13,109,191)</u>	<u>\$ (11,632,013)</u>	<u>\$ (10,769,735)</u>	<u>\$ (10,549,111)</u>	<u>\$ (10,590,373)</u>

(Continued)

STATE OF ARIZONA  
SCHEDULE 2  
**CHANGES IN NET ASSETS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	Fiscal Year				
	2012	2011	2010	2009	2008
<b>GENERAL REVENUES AND OTHER</b>					
<b>CHANGES IN NET ASSETS</b>					
<b>Governmental Activities:</b>					
Taxes:					
Sales	\$ 6,296,151	\$ 5,942,250	\$ 5,029,050	\$ 5,442,563	\$ 6,270,419
Income	3,706,698	3,366,783	2,809,995	3,126,076	4,205,426
Tobacco (7)	317,369	320,657	332,893	370,073	413,333
Property	30,656	32,038	31,417	32,564	36,732
Motor vehicle and fuel (4)	1,581,909	1,565,525	1,583,790	1,643,276	1,800,920
Other (7)	522,510	550,430	535,435	574,030	559,440
Unrestricted investment earnings (8)	79,190	29,183	37,665	92,957	243,160
Unrestricted grants and contributions	40,678	16,468	13,213	12,440	13,574
Miscellaneous general revenues (5)	167,604	140,854	204,295	222,712	214,751
Gain (loss) on sale of trust land	125,479	(154,359)	64,005	(165,696)	196,953
Transfers	(576,846)	(734,892)	(809,864)	(983,006)	(994,435)
<b>Total Governmental Activities</b>	<b>12,291,398</b>	<b>11,074,937</b>	<b>9,831,894</b>	<b>10,367,989</b>	<b>12,960,273</b>
<b>Business-type Activities:</b>					
Sales taxes	55,309	52,913	52,318	58,528	72,945
Unrestricted investment earnings	49,501	68,401	70,766	22,450	39,763
Unrestricted grants and contributions	3,468	-	-	-	-
Miscellaneous general revenues (6)	155,757	50,510	52,072	45,786	64,564
Contributions to permanent endowments	3,270	3,656	3,020	4,014	3,927
Special items	-	-	-	7,240	(20,100)
Extraordinary items	-	3,884	7,080	2,720	15,475
Transfers	576,846	734,892	809,864	983,006	994,435
<b>Total Business-type Activities</b>	<b>844,151</b>	<b>914,256</b>	<b>995,120</b>	<b>1,123,744</b>	<b>1,171,009</b>
<b>Total Primary Government</b>	<b>\$ 13,135,549</b>	<b>\$ 11,989,193</b>	<b>\$ 10,827,014</b>	<b>\$ 11,491,733</b>	<b>\$ 14,131,282</b>
<b>CHANGE IN NET ASSETS</b>					
Governmental activities	\$ 1,730,891	\$ 977,217	\$ 130,370	\$ (2,312,301)	\$ (435,877)
Business-type activities	194,353	115,796	(311,779)	(366,256)	99,676
<b>Total Primary Government</b>	<b>\$ 1,925,244</b>	<b>\$ 1,093,013</b>	<b>\$ (181,409)</b>	<b>\$ (2,678,557)</b>	<b>\$ (336,201)</b>

- (1) This schedule reports using the accrual basis of accounting.
- (2) For fiscal year 2006, net assets for governmental activities were increased by the capitalization of \$302,375 of capital assets that were previously recorded as transportation expenses.
- (3) The Industrial Commission Special Fund's cost of sales and benefits expense decreased \$125,828 during fiscal year 2006, primarily due to a decrease in insolvent carrier liabilities. During fiscal years 2005 and 2004, insolvent carrier liability increased, primarily as the result of \$67,423 and \$107,600, respectively, in Arizona workers' compensation claims from the defunct California domiciled Fremont Companies.
- (4) \$31,804 of transportation's charges for services for fiscal year 2005 were classified as motor vehicle and fuel tax revenues.
- (5) Beginning in fiscal year 2004, operating grants and contributions included Indian gaming revenue and tobacco settlement revenue. For fiscal year 2004, gaming revenue was \$57,517 and this was the first year that gaming revenue was earned, as a result of Proposition 202. For fiscal year 2004, tobacco settlement revenue was \$91,601. Prior to fiscal year 2004, tobacco settlement revenue was included in miscellaneous general revenues.
- (6) Beginning in fiscal year 2005, settlement income for the Industrial Commission Special Fund is classified as a program revenue, charges for services. Prior to this, it was classified as a miscellaneous general revenue. In fiscal year 2005, settlement income was \$41,554.
- (7) Prior to fiscal year 2004, tobacco tax revenue was included in other tax revenue.
- (8) Fiscal year 2007 unrestricted investment earnings were reduced by \$17,771 due to reclassifying the Greater Arizona Development Authority from the primary government to a component unit.

Fiscal Year				
2007, as restated	2006, as restated	2005	2004, as restated	2003, as restated
\$ 6,537,584	\$ 6,322,311	\$ 5,421,949	\$ 5,016,585	\$ 4,551,804
4,636,447	4,548,843	3,562,916	2,800,461	2,371,005
358,205	248,122	237,430	223,804	-
43,736	43,035	46,148	50,455	37,470
1,826,893	1,857,293	1,758,950	1,613,952	1,563,876
529,629	575,946	493,501	539,218	632,896
243,328	172,311	106,362	24,227	77,914
11,711	12,293	11,624	8,502	7,222
212,253	235,610	387,269	281,109	319,873
451,501	567,364	288,483	319,517	137,563
(876,456)	(774,492)	(707,597)	(678,726)	(665,004)
<u>13,974,831</u>	<u>13,808,636</u>	<u>11,607,035</u>	<u>10,199,104</u>	<u>9,034,619</u>
79,223	54,550	57,584	50,050	43,450
103,362	49,050	40,311	38,753	32,527
-	-	5	-	3
77,841	58,816	26,017	46,615	26,985
4,815	3,803	2,955	2,231	3,037
-	(7,874)	-	(6,880)	-
-	-	-	-	-
876,456	774,492	707,597	678,726	665,004
<u>1,141,697</u>	<u>932,837</u>	<u>834,469</u>	<u>809,495</u>	<u>771,006</u>
<u>\$ 15,116,528</u>	<u>\$ 14,741,473</u>	<u>\$ 12,441,504</u>	<u>\$ 11,008,599</u>	<u>\$ 9,805,625</u>
\$ 1,676,389	\$ 2,871,740	\$ 1,658,326	\$ 679,900	\$ (564,782)
330,948	237,720	13,443	(220,412)	(219,966)
<u>\$ 2,007,337</u>	<u>\$ 3,109,460</u>	<u>\$ 1,671,769</u>	<u>\$ 459,488</u>	<u>\$ (784,748)</u>

STATE OF ARIZONA  
SCHEDULE 3  
**FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	Fiscal Year				
	2012	2011	2010, as restated (2)	2009	2008
<b>GENERAL FUND:</b>					
Reserved for:					
Budget stabilization fund	\$ -	\$ -	\$ -	\$ 2,767	\$ 147,212
School facilities improvements	-	-	14,764	376,993	1,914
Continuing appropriations	-	-	55,354	43,091	103,320
Other fund balance reservations	-	-	232	252	262
Unreserved	-	-	(817,348)	(1,401,381)	108,914
Nonspendable (2)	891	716	-	-	-
Restricted (2)	246,977	317,471	-	-	-
Committed (2)	109,469	141,183	-	-	-
Unassigned (2)	(437,035)	(1,162,531)	-	-	-
<b>Total General Fund</b>	<b>\$ (79,698)</b>	<b>\$ (703,161)</b>	<b>\$ (746,998)</b>	<b>\$ (978,278)</b>	<b>\$ 361,622</b>
<b>ALL OTHER GOVERNMENTAL FUNDS:</b>					
Reserved for:					
Highway construction	\$ -	\$ -	\$ 809,497	\$ 1,304,781	\$ 1,253,202
Other construction	-	-	45,403	108,129	238,985
School facilities improvements	-	-	-	-	-
Permanent funds	-	-	2,674,953	2,196,040	2,544,365
Continuing appropriations	-	-	116,350	212,553	143,785
Debt service	-	-	26,389	27,115	35,236
Other fund balance reservations	-	-	40,327	7,447	27,132
Unreserved, reported in:					
Special revenue funds	-	-	821,491	767,258	919,679
Capital projects funds	-	-	-	-	-
Nonspendable (2)	3,472,005	3,244,080	-	-	-
Restricted (2)	1,664,746	1,531,992	-	-	-
Committed (2)	514,085	452,447	-	-	-
Unassigned (2)	(33,861)	(39,009)	-	-	-
<b>Total All Other Governmental Funds</b>	<b>\$ 5,616,975</b>	<b>\$ 5,189,510</b>	<b>\$ 4,534,410</b>	<b>\$ 4,623,323</b>	<b>\$ 5,162,384</b>

(1) This schedule reports using the modified accrual basis of accounting.

(2) Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement 54. Additionally, as a result of the reclassification, fund balance for fiscal year 2010 was restated.

Fiscal Year

2007, as restated	2006	2005	2004	2003
\$ 673,531	\$ 651,020	\$ 160,873	\$ 13,545	\$ 13,737
4,931	110,149	107,260	96,714	101,944
162,657	69,861	55,727	74,973	87,131
272	302	374	377	598
1,081,708	1,434,806	986,168	561,029	343,012
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 1,923,099</u>	<u>\$ 2,266,138</u>	<u>\$ 1,310,402</u>	<u>\$ 746,638</u>	<u>\$ 546,422</u>
\$ 976,488	\$ 426,015	\$ 419,072	\$ 321,401	\$ 342,324
5,288	6,256	7,307	41,165	33,477
-	-	5,386	17,808	33,893
2,454,564	2,043,591	1,716,404	1,361,366	1,123,523
94,602	118,671	120,752	114,948	90,238
34,421	37,792	21,992	27,693	23,273
17,702	5,145	25,375	25,138	38,945
793,890	657,371	574,938	463,738	444,301
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 4,376,955</u>	<u>\$ 3,294,841</u>	<u>\$ 2,891,226</u>	<u>\$ 2,373,257</u>	<u>\$ 2,129,974</u>

STATE OF ARIZONA  
SCHEDULE 4  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	Fiscal Year				
	2012	2011	2010, as restated	2009	2008
<b>REVENUES</b>					
Taxes:					
Sales	\$ 6,312,870	\$ 5,971,141	\$ 5,017,977	\$ 5,429,453	\$ 6,278,181
Income	3,715,082	3,398,972	2,805,426	3,137,794	4,174,966
Tobacco (2)	317,369	320,657	332,893	370,073	413,333
Property	30,656	32,038	31,417	32,564	36,732
Motor vehicle and fuel	1,581,909	1,565,525	1,585,919	1,672,151	1,802,572
Other (2)	522,510	550,430	535,435	574,030	559,440
Intergovernmental	11,843,908	13,019,744	13,562,547	11,316,023	9,499,419
Licenses, fees, and permits	477,344	452,629	425,526	410,002	447,090
Earnings (loss) on investments (3,7)	190,055	438,068	422,564	(318,321)	135,879
Sales and charges for services (9)	188,806	186,325	203,725	154,671	167,329
Fines, forfeitures, and penalties	168,240	184,950	224,000	203,337	167,309
Gaming (4)	85,535	80,455	77,554	84,140	94,004
Tobacco settlement (5)	101,067	99,130	105,394	125,571	115,587
Proceeds from sale of trust land (8)	137,405	95,500	78,564	143,674	-
Other (5)	199,455	164,658	230,223	253,868	263,443
Total Revenues	<u>25,872,211</u>	<u>26,560,222</u>	<u>25,639,164</u>	<u>23,589,030</u>	<u>24,155,284</u>
<b>EXPENDITURES</b>					
Current:					
General government (9)	838,776	933,313	923,977	913,266	966,512
Health and welfare	12,029,530	12,818,468	13,054,472	11,959,640	10,874,581
Inspection and regulation	153,947	153,718	157,461	174,633	184,451
Education	5,332,141	5,467,695	5,702,963	6,031,605	6,240,862
Protection and safety	1,351,251	1,288,577	1,417,428	1,460,692	1,447,372
Transportation (6)	745,306	820,417	584,363	608,631	630,283
Natural resources	202,677	191,429	175,568	220,030	242,893
Intergovernmental revenue sharing	2,473,535	2,459,934	2,574,539	2,764,776	3,026,563
Debt service:					
Principal	386,027	383,591	288,172	235,971	261,228
Interest and other fiscal charges	344,903	357,754	286,027	238,430	210,856
Capital outlay (6)	769,716	824,417	1,291,341	1,295,530	1,106,951
Total Expenditures	<u>24,627,809</u>	<u>25,699,313</u>	<u>26,456,311</u>	<u>25,903,204</u>	<u>25,192,552</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,244,402</u>	<u>860,909</u>	<u>(817,147)</u>	<u>(2,314,174)</u>	<u>(1,037,268)</u>

Fiscal Year

2007, as restated	2006	2005	2004	2003
\$ 6,527,968	\$ 6,313,090	\$ 5,410,383	\$ 4,985,424	\$ 4,555,389
4,629,220	4,535,492	3,528,565	2,818,778	2,387,369
358,205	248,122	237,430	223,804	-
43,736	43,035	46,148	50,455	37,470
1,828,701	1,857,293	1,758,950	1,613,952	1,563,876
529,629	575,946	493,501	539,218	632,896
8,313,720	8,019,509	7,714,012	7,159,976	6,141,218
442,236	410,069	335,760	349,938	320,564
510,253	247,250	190,499	131,715	111,771
158,318	162,048	154,251	161,170	111,438
183,923	138,354	121,123	120,032	96,192
94,771	84,794	67,658	57,517	-
90,258	86,231	93,933	92,550	-
-	-	-	-	-
264,440	269,411	430,097	313,220	337,930
<u>23,975,378</u>	<u>22,990,644</u>	<u>20,582,310</u>	<u>18,617,749</u>	<u>16,296,113</u>
879,519	861,373	758,149	718,229	689,603
9,679,226	8,995,430	8,419,913	7,733,516	6,652,661
173,897	157,401	146,523	136,189	139,863
5,983,513	5,302,942	4,852,099	4,702,609	4,882,516
1,358,439	1,247,508	1,132,473	1,028,134	925,667
524,318	373,603	564,574	717,463	463,756
185,592	178,832	175,593	153,533	163,946
2,863,218	2,661,894	2,335,828	2,144,438	2,159,691
220,473	261,277	381,512	327,595	297,508
195,317	176,933	200,731	188,247	140,613
992,000	1,066,815	710,688	695,289	1,041,038
<u>23,055,512</u>	<u>21,284,008</u>	<u>19,678,083</u>	<u>18,545,242</u>	<u>17,556,862</u>
919,866	1,706,636	904,227	72,507	(1,260,749)

(Continued)

STATE OF ARIZONA  
SCHEDULE 4  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

	Fiscal Year				
	2012	2011	2010, as restated	2009	2008
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	821,072	862,040	1,106,250	1,248,267	897,771
Transfers out	(1,323,778)	(1,574,406)	(1,872,212)	(2,168,964)	(1,874,084)
Proceeds from sale of trust land (8)	-	-	-	-	249,970
Proceeds from sale of capital assets	1,815	3,712	3,088	2,127	28,233
Capital lease and installment purchase contracts	8,166	4,583	187,836	4,056	23,556
Proceeds from notes and loans	9,541	11,113	32,628	23,139	19,529
Refunding bonds issued	455,900	-	-	-	82,880
Payment to refunded bond escrow agent	(560,228)	-	-	-	(86,547)
Bonds issued	259,460	180,000	425,420	621,050	563,950
Refunding grant anticipation notes issued	43,825	-	-	-	-
Grant anticipation notes issued	-	158,585	-	55,420	68,000
Refunding certificates of participation issued	-	-	-	-	-
Payment to refunded certificates of participation escrow agent	-	-	-	-	-
Certificates of participation issued	-	150,110	998,795	580,035	238,990
Premium on debt issued	90,753	42,291	77,709	70,083	48,972
Total Other Financing Sources (Uses)	<u>(193,474)</u>	<u>(161,972)</u>	<u>959,514</u>	<u>435,213</u>	<u>261,220</u>
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 1,050,928</b>	<b>\$ 698,937</b>	<b>\$ 142,367</b>	<b>\$ (1,878,961)</b>	<b>\$ (776,048)</b>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>	3.1%	3.0%	2.3%	1.9%	2.0%

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Prior to fiscal year 2004, tobacco tax revenue was included in other tax revenue.  
Increase from fiscal year 2006 to fiscal year 2007 primarily due to Proposition 203, implemented December 2006.
- (3) Increase from fiscal year 2006 to fiscal year 2007 primarily due to increase in Land Endowment fair market value of investments, larger cash balances available to invest, and market interest rates.
- (4) Beginning in fiscal year 2004, Indian gaming revenue was earned as a result of Proposition 202.
- (5) Prior to fiscal year 2004, tobacco settlement revenue was included in other revenue.
- (6) For fiscal year 2006, transportation expenditures were reduced and capital outlay was increased by \$302,375 for addition of capital assets that were previously recorded as transportation expenditures.
- (7) In fiscal year 2008, the Greater Arizona Development Authority Fund was reclassified from a special revenue fund to a component unit. Fiscal year 2007 earnings on investments has been restated to reflect this change.
- (8) In fiscal year 2009, "Proceeds from sale of trust land" was moved from "Other financing sources (uses)" to "Revenues."
- (9) In fiscal year 2010, amounts were restated as a result of implementing GASB Statement 54.

Fiscal Year

2007, as restated	2006	2005	2004	2003
910,605	812,083	1,011,456	940,050	1,053,862
(1,784,833)	(1,585,754)	(1,714,562)	(1,616,105)	(1,690,443)
199,089	284,293	274,127	149,001	88,066
10,162	11,118	-	-	-
132,985	3,543	5,350	24,349	101,473
-	-	-	-	-
-	596,160	224,283	107,940	90,530
-	(646,689)	(247,417)	(145,965)	(107,735)
325,000	118,250	210,577	389,746	662,975
-	-	-	22,633	-
-	-	104,385	177,322	-
-	-	334,225	16,725	75,295
-	-	(363,052)	(17,273)	(80,713)
-	-	237,625	273,735	372,730
26,201	59,711	100,509	48,834	80,563
(180,791)	(347,285)	177,506	370,992	646,603
<u>\$ 739,075</u>	<u>\$ 1,359,351</u>	<u>\$ 1,081,733</u>	<u>\$ 443,499</u>	<u>\$ (614,146)</u>

1.9%

2.2%

3.1%

2.9%

2.7%

STATE OF ARIZONA  
SCHEDULE 5  
**NET TAXABLE SALES BY CLASSIFICATION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

CLASSIFICATION (6)	Fiscal Year					
	2012	2011	2010	2009	2008	2007
Transporting (2)	\$ 52,137	\$ 41,555	\$ 41,990	\$ 37,920	\$ 48,713	\$ 43,351
Mining, oil and gas	105,614	96,514	102,900	175,743	216,675	255,531
Mining severance	1,623,111	1,609,451	1,164,231	729,482	1,752,522	1,743,361
Utilities	9,474,521	9,394,361	9,354,244	9,236,366	9,237,779	8,609,034
Communications	3,190,962	2,853,538	3,618,208	2,928,433	3,669,683	3,513,667
Private car and pipelines	1,186	1,908	1,640	7,743	16,021	19,679
Publishing	92,505	98,343	103,681	102,457	122,652	129,681
Job printing	252,603	266,564	236,985	307,581	391,038	397,802
Restaurants and bars	9,996,825	9,311,826	9,020,795	9,094,485	9,663,959	9,619,785
Amusements	1,037,059	994,092	1,051,919	1,053,048	1,146,344	1,086,364
Commercial lease (3)	1	2	141	1	(443)	(2)
Personal property rentals	3,257,588	3,056,386	3,127,828	3,552,696	3,995,697	3,927,824
Contracting	9,543,335	8,983,261	9,311,612	14,882,706	20,156,299	22,415,051
Feed wholesale (4)	-	-	-	-	-	-
Retail	48,178,714	45,898,838	42,913,933	46,174,068	52,626,993	55,009,403
Hotel/motel	2,156,864	2,039,283	1,949,718	2,117,242	2,405,705	2,411,634
Rental occupancy tax (8)	(3)	43	(62)	(25)	(2,669)	1,065
Use tax	5,302,844	4,610,921	5,464,504	5,882,942	6,837,880	6,091,507
Use tax-utilities (7)	10,022	10,040	(35,594)	38,653	12,461	12,154
Membership camping (8)	-	1	10	11	52	12
Other	-	-	-	-	-	-
<b>Total</b>	<b>\$ 94,275,888</b>	<b>\$ 89,266,927</b>	<b>\$ 87,428,683</b>	<b>\$ 96,321,552</b>	<b>\$ 112,297,361</b>	<b>\$ 115,286,903</b>
Direct sales tax rate (5)	6.60%	6.60%	5.60%	5.60%	5.60%	5.60%

- (1) Net taxable sales are based upon tax receipts.
- (2) The transporting/towing and railroads/aircraft business classifications have been combined into one category and renamed "transporting."
- (3) Commercial lease rate dropped to 0% effective July 1, 1997.
- (4) Feed wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.
- (5) A significant portion of the revenue base was subject to a sales tax rate of 5.6% for fiscal years 2003 through 2010 and 6.6% for fiscal years 2011 and 2012. For fiscal years 2003 thru 2012, the tax rate for non-metal mining, oil and gas was 3.125%, the mining severance was 2.5%, and the jet fuel and jet fuel use tax was \$.0305 per gallon. The hotel/motel tax rate was 5.5% for fiscal years 2003 through 2010 and 6.5% for fiscal years 2011 and 2012. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with an affirmative vote of two-thirds of the members of each house. The 1.00% rate increase approved under Proposition 100 on May 18, 2010 increased the state transaction privilege and use rate beginning June 1, 2010 by one percentage point which is reflected in this table.
- (6) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.
- (7) Use tax-utilities was not reported prior to fiscal year 2008. Fiscal years 2004-2008 were reported in fiscal year 2008. Information prior to 2004 is not available.
- (8) Effective November 1, 2006, membership camping and rental occupancy were repealed.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2012 and prior.

Fiscal Year			
2006	2005	2004	2003
\$ 59,801	\$ 53,371	\$ 67,486	\$ 26,106
321,538	317,202	287,787	268,073
1,219,984	656,631	261,623	45,049
7,679,982	6,828,179	6,430,306	5,940,826
3,220,062	2,934,858	2,809,508	2,869,499
25,751	14,832	15,920	12,493
133,680	134,925	128,911	133,229
403,686	367,010	348,924	427,730
8,933,459	7,939,964	7,202,034	6,655,028
998,767	872,520	813,489	782,670
(120)	919	(6,518)	(7,579)
3,633,374	3,242,363	3,174,945	3,319,778
20,487,917	16,044,847	13,156,490	11,563,726
-	-	(8)	(67)
53,147,971	46,378,344	42,409,055	39,408,769
2,268,776	2,063,973	1,831,153	1,698,499
3,471	2,414	4,202	1,428
6,155,959	5,218,535	4,644,319	3,793,691
16,582	234	127	-
2,785	2,897	2,998	2,406
-	-	119	-
<u>\$ 108,713,425</u>	<u>\$ 93,074,018</u>	<u>\$ 83,582,870</u>	<u>\$ 76,941,354</u>
5.60%	5.60%	5.60%	5.60%

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STATE OF ARIZONA  
SCHEDULE 6  
**SALES TAX REVENUE PAYERS BY CLASSIFICATION**  
CURRENT YEAR AND NINE YEARS AGO  
(Expressed in Thousands)

CLASSIFICATION	Fiscal Year 2012		Fiscal Year 2003	
	Tax	Percentage	Tax	Percentage
	Collections	of Total	Collections	of Total
Transporting (1)	\$ 2,604	0.05 %	\$ 3,154	0.07 %
Non-metal mining, oil and gas	3,301	0.06	8,377	0.19
Mining severance	40,578	0.78	1,126	0.03
Timbering severance - ponderosa (2)	-	-	5	-
Utilities	473,726	9.06	297,041	6.90
Communications	159,548	3.05	143,475	3.33
Railroads and aircraft (1)	-	-	(1,849)	(0.04)
Private car and pipelines	59	-	625	0.01
Publishing	4,625	0.09	6,661	0.15
Printing	12,630	0.24	21,387	0.50
Restaurants and bars	499,841	9.56	332,751	7.73
Amusements	51,853	0.99	39,133	0.91
Commercial lease (3)	-	-	(114)	-
Personal property rentals	162,875	3.12	165,989	3.86
Contracting	477,165	9.13	578,186	13.43
Retail	2,408,948	46.08	1,970,438	45.79
Hotel/motel	118,628	2.27	93,417	2.17
Rental occupancy tax (2)	-	-	43	-
Use tax utilities	501	0.01	-	-
Use tax	263,724	5.04	189,685	4.41
License fees	542	0.01	500	0.01
Membership camping (2)	-	-	120	-
Jet fuel tax	3,810	0.07	5,839	0.14
Jet fuel use tax	732	0.01	502	0.01
Non sufficient funds	53	-	43	-
Telecommunications service assistance	(156)	-	(291)	(0.01)
Mandatory EFT fees	338	0.01	-	-
Education tax (4)	542,395	10.37	447,841	10.41
<b>Total</b>	<b>\$ 5,228,320</b>	<b>100.00 %</b>	<b>\$ 4,304,084</b>	<b>100.00 %</b>

- (1) Transporting/towing was combined with railroads/aircraft for confidentiality purposes beginning in fiscal year 2004.
- (2) Effective November 1, 2006 these rates were repealed.
- (3) Commercial lease rate dropped to 0% effective July 1, 1997.
- (4) The education tax is .6% of net taxable sales for most classifications. The ones that do not collect the education tax are non-metal mining, oil and gas, mining and timbering severances, hotel/motel, rental occupancy, and jet fuel taxes. The Arizona Department of Revenue's annual report does not include the amount of education tax collected from each classification; rather it reports the total collected from all classifications. The education tax became effective June 1, 2001.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2012 and 2003.

STATE OF ARIZONA  
SCHEDULE 7  
**PERSONAL INCOME BY INDUSTRY (3)**  
FOR THE LAST TEN CALENDAR YEARS  
(Expressed in Thousands)

CLASSIFICATION	Calendar Year Ended December 31					
	2011	2010	2009	2008	2007	2006
Farm earnings	\$ 1,084,076	\$ 701,669	\$ 496,972	\$ 625,349	\$ 818,856	\$ 692,283
Forestry and fishing	472,323	441,488	415,493	404,150	452,275	448,533
Mining	1,176,968	1,011,364	986,723	1,372,046	1,032,176	903,040
Utilities	1,600,157	1,568,120	1,594,921	1,573,587	1,422,489	1,330,098
Construction	8,767,264	8,623,271	9,464,460	13,184,765	14,710,324	15,438,164
Manufacturing	13,326,355	12,550,307	12,451,628	13,741,210	13,722,387	13,656,708
Wholesale trade	8,320,573	7,992,993	8,016,266	8,642,214	8,785,321	7,924,846
Retail trade	12,558,044	11,822,332	11,787,506	12,513,585	13,323,248	12,967,991
Transportation and warehousing	4,980,116	4,720,442	4,702,374	4,892,245	4,960,240	4,778,258
Information	2,927,104	2,856,013	3,019,547	3,178,441	3,079,614	3,144,112
Finance and insurance	10,712,372	10,073,935	9,581,251	9,965,677	10,606,023	10,547,147
Real estate, rental, and leasing	4,233,451	4,155,458	3,518,283	4,223,362	4,308,573	5,321,210
Professional and technical services	12,826,599	12,147,389	12,141,072	13,437,572	12,799,386	11,795,487
Managing companies/enterprises	2,237,074	2,189,778	2,412,689	2,427,638	2,438,767	2,016,086
Administrative and waste services	9,017,512	8,659,822	8,751,064	9,593,039	9,642,814	9,219,474
Educational services	2,708,347	2,544,398	2,357,215	2,080,996	1,842,200	1,711,762
Health care and social assistance	19,857,701	19,246,288	18,345,888	17,762,771	16,234,807	14,945,405
Arts, entertainment, and recreation	1,786,419	1,756,412	1,682,950	1,742,844	1,764,742	1,697,223
Accommodation and food services	5,935,381	5,666,943	5,552,846	5,925,329	6,150,529	5,507,255
Other services, except public administration	5,686,358	5,461,139	5,355,341	5,442,281	5,806,999	5,237,758
Government and government enterprises	28,727,443	28,391,148	28,427,785	28,135,070	26,626,290	24,771,576
Other (1)	68,344,882	64,008,843	61,811,008	65,600,877	58,059,491	52,903,982
<b>Total</b>	<b>\$ 227,286,519</b>	<b>\$ 216,589,552</b>	<b>\$ 212,873,282</b>	<b>\$ 226,465,048</b>	<b>\$ 218,587,551</b>	<b>\$ 206,958,398</b>
Average effective rate (2)	1.36%	1.33%	1.14%	1.14%	1.56%	1.77%

- (1) Includes dividends, interest, rental income, personal current transfer receipts, adjustment for residence, and deductions for government social insurance.
- (2) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.
- (3) Personal income estimates for years 2008 through 2010 were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.

Source: U.S. Bureau of Economic Analysis and Arizona Department of Revenue Annual Report.

Calendar Year Ended December 31

	2005	2004	2003	2002
\$	966,562	\$ 1,005,583	\$ 731,608	\$ 763,907
	392,423	398,258	359,899	348,540
	717,889	652,564	568,278	562,242
	1,181,096	1,077,131	1,043,710	1,036,530
	13,453,380	11,524,499	10,379,641	10,159,027
	12,736,884	12,241,302	11,754,138	11,581,992
	7,209,873	6,643,795	6,001,515	5,900,156
	11,909,557	10,755,773	10,055,878	9,368,279
	4,375,950	4,073,329	3,720,148	3,520,402
	2,977,675	3,035,060	2,982,886	2,962,772
	9,680,158	8,358,294	7,848,643	7,240,812
	5,320,830	4,854,340	4,150,748	4,129,856
	10,295,791	8,975,667	8,156,394	8,039,619
	1,694,602	1,908,177	1,598,978	1,429,896
	8,326,832	7,186,639	6,568,021	6,203,543
	1,572,715	1,439,838	1,165,114	1,029,270
	13,342,839	12,318,173	11,093,907	10,050,149
	1,487,796	1,438,709	1,347,898	1,344,317
	5,162,857	4,750,837	4,328,034	4,129,811
	4,761,529	4,269,944	4,043,836	4,050,133
	23,099,159	21,470,055	20,037,866	18,617,360
	47,486,042	41,648,161	37,670,118	35,706,259
\$	<u>188,152,439</u>	<u>\$ 170,026,128</u>	<u>\$ 155,607,258</u>	<u>\$ 148,174,872</u>
	1.94%	1.68%	1.49%	1.42%

STATE OF ARIZONA  
SCHEDULE 8  
**PERSONAL INCOME TAX RATES**  
FOR THE LAST TEN CALENDAR YEARS  
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2011	2010	2009	2008	2007
<b><u>AVERAGE EFFECTIVE RATE (3)</u></b>					
Personal Income Tax Revenue (1)	\$ 3,099,177	\$ 2,870,765	\$ 2,423,215	\$ 2,575,453	\$ 3,414,304
Personal Income (2)	\$ 227,286,519	\$ 216,589,552	\$ 212,873,282	\$ 226,465,048	\$ 218,587,551
Average Effective Rate (3)	1.36%	1.33%	1.14%	1.14%	1.56%
<b><u>TAX RATES ON THE PORTION OF TAXABLE INCOME IN RANGES (4)</u></b>					
\$0 - \$10	2.59%	2.59%	2.59%	2.59%	2.59%
\$10 - \$25	2.88%	2.88%	2.88%	2.88%	2.88%
\$25 - \$50	3.36%	3.36%	3.36%	3.36%	3.36%
\$50 - \$150	4.24%	4.24%	4.24%	4.24%	4.24%
\$150 and over	4.54%	4.54%	4.54%	4.54%	4.54%

- (1) Personal income tax revenue includes income tax collections and refunds, on a cash basis, for the fiscal year ending the following June 30.  
(2) Personal income is reported on a calendar basis. Years 2008 through 2010 have been revised to reflect revisions made by the U.S. Bureau of Economic Analysis.  
(3) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.  
(4) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the amounts for the income tax ranges. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with a vote of two-thirds of the members of each house.

Source: Arizona Department of Revenue Annual Reports/Tax Tables and the U.S. Bureau of Economic Analysis.

STATE OF ARIZONA  
SCHEDULE 9  
**PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**  
FOR THE TAXABLE YEARS 2009 AND 2002 (1)  
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2009			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<b><u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u></b>				
\$50 and under	1,739,297	68.44%	\$ 395,695	15.48%
\$50 - \$100	525,351	20.67%	643,653	25.17%
\$100 - \$500	267,017	10.50%	1,014,846	39.68%
\$500 and over	9,837	0.39%	503,105	19.67%
Total	2,541,502	100.00%	\$ 2,557,299	100.00%

- (1) The taxable year 2009 is the most recent year for which data is available, and combines the number of filers of the Arizona Forms 140, 140A, 140NR (nonresident), and 140PY (part year resident) Individual Income tax returns.  
(2) Liability, as reported on Arizona Forms 140, 140A, 140NR (nonresident), and 140PY (part year resident) Individual Income tax returns for tax year 2009, filed from January 2010 forward (or 2002, filed from January 2003 forward).  
(3) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.

Source: Arizona Department of Revenue Annual Reports.

Calendar Year Ended December 31

2006	2005	2004	2003	2002
\$ 3,666,923	\$ 3,651,576	\$ 2,854,009	\$ 2,316,040	\$ 2,104,362
\$ 206,958,398	\$ 188,152,439	\$ 170,026,128	\$ 155,607,258	\$ 148,174,872
1.77%	1.94%	1.68%	1.49%	1.42%
2.73%	2.87%	2.87%	2.87%	2.87%
3.04%	3.20%	3.20%	3.20%	3.20%
3.55%	3.74%	3.74%	3.74%	3.74%
4.48%	4.72%	4.72%	4.72%	4.72%
4.79%	5.04%	5.04%	5.04%	5.04%

Taxable Year Ended December 31, 2002

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,576,268	72.49%	\$ 436,486	20.49%
433,508	19.94%	601,636	28.24%
157,522	7.25%	698,027	32.75%
7,035	0.32%	394,610	18.52%
<u>2,174,333</u>	<u>100.00%</u>	<u>\$ 2,130,759</u>	<u>100.00%</u>

STATE OF ARIZONA  
SCHEDULE 10  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands, Except Amount of Debt per Capita)

	Fiscal Year					
	2012	2011	2010	2009	2008	2007
<b>GOVERNMENTAL ACTIVITIES:</b>						
Revenue bonds	\$ 3,593,420	\$ 3,529,115	\$ 3,522,605	\$ 3,251,580	\$ 2,759,070	\$ 2,328,840
Grant anticipation notes	335,230	392,495	304,480	329,650	298,280	282,860
Certificates of participation	2,495,825	2,611,255	2,571,125	1,649,870	1,135,640	959,865
Capital leases	391,184	400,540	412,919	236,125	249,876	242,209
Installment purchase contracts	177	245	901	6,343	8,908	10,644
Notes payable	55,666	59,891	60,712	42,668	22,838	3,309
Premiums and discounts on debt	396,465	342,602	334,721	285,613	242,816	225,071
Deferred amount on refundings	(813)	(1,221)	(5,197)	(9,171)	(13,145)	(14,266)
Total Governmental Activities	<u>7,267,154</u>	<u>7,334,922</u>	<u>7,202,266</u>	<u>5,792,678</u>	<u>4,704,283</u>	<u>4,038,532</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Revenue bonds	1,942,755	1,742,125	1,692,825	1,239,675	902,255	868,565
Certificates of participation	756,980	812,706	840,719	872,829	903,843	935,127
Capital leases	163,637	167,841	171,448	175,453	179,052	166,780
Installment purchase contracts	8,397	10,511	13,043	16,418	13,024	9,544
Notes payable	12,643	292	360	674	1,022	1,354
Premiums and discounts on debt	87,993	41,393	39,705	43,112	38,211	39,582
Deferred amount on refundings	(33,391)	(20,875)	(23,100)	(25,294)	(27,711)	(29,211)
Total Business-type Activities	<u>2,939,014</u>	<u>2,753,993</u>	<u>2,735,000</u>	<u>2,322,867</u>	<u>2,009,696</u>	<u>1,991,741</u>
Total Primary Government	<u>\$ 10,206,168</u>	<u>\$ 10,088,915</u>	<u>\$ 9,937,266</u>	<u>\$ 8,115,545</u>	<u>\$ 6,713,979</u>	<u>\$ 6,030,273</u>
Debt as a Percentage of						
Personal Income (1)	4.5%	4.7%	4.7%	3.6%	3.1%	2.9%
Amount of Debt per Capita (1)	\$ 1,574	\$ 1,573	\$ 1,567	\$ 1,292	\$ 1,089	\$ 1,000

Note: Details regarding the State's outstanding debt can be found in the notes to the financial statements.

(1) See Schedule 23 for personal income and population data. These ratios are calculated using personal income and population data for the calendar year that ends during that fiscal year. For example, fiscal year 2012 contains data for the calendar year ending December 31, 2011.

Fiscal Year

	2006	2005	2004	2003
\$	2,106,700	\$ 2,170,845	\$ 2,278,225	\$ 2,173,055
	325,430	363,970	308,585	169,145
	1,020,810	1,054,677	845,804	582,511
	129,808	126,676	125,974	104,644
	6,815	6,926	4,602	6,188
	-	-	562	10,301
	219,958	197,479	144,759	108,732
	(17,832)	-	-	-
	<u>3,791,689</u>	<u>3,920,573</u>	<u>3,708,511</u>	<u>3,154,576</u>
	802,600	768,000	756,781	597,238
	946,766	860,759	641,315	429,144
	113,388	120,361	80,338	31,923
	10,279	7,276	5,038	3,823
	-	30	80	129
	38,331	36,133	28,184	21,686
	(21,606)	(20,821)	(10,970)	(11,305)
	<u>1,889,758</u>	<u>1,771,738</u>	<u>1,500,766</u>	<u>1,072,638</u>
\$	<u><u>5,681,447</u></u>	<u><u>5,692,311</u></u>	<u><u>5,209,277</u></u>	<u><u>4,227,214</u></u>
	3.0%	3.3%	3.3%	2.9%
\$	973	\$ 1,007	\$ 945	\$ 783

STATE OF ARIZONA  
SCHEDULE 11  
**LEGAL DEBT MARGIN INFORMATION**  
**ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Total Principal Outstanding Debt Limit (1)				
Fiscal Year	Debt Limit	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit
2012	\$ -	\$ -	\$ -	- %
2011	-	-	-	-
2010	-	-	-	-
2009	-	-	-	-
2008	-	-	-	-
2007	-	-	-	-
2006	1,300,000	1,223,425	76,575	94.11
2005	1,300,000	1,161,355	138,645	89.34
2004	1,300,000	1,017,360	282,640	78.26
2003	1,300,000	932,700	367,300	71.75

(1) As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from ARS §28-7510. The general effective date of this change was September 21, 2006. Prior to September 21, 2006, Arizona Revised Statutes restricted the total principal amount of Arizona Highway Revenue Bonds that could be outstanding at any time, excluding refunded bonds, from exceeding \$1.3 billion.

STATE OF ARIZONA  
SCHEDULE 12  
**LEGAL DEBT MARGIN INFORMATION**  
**ARIZONA STATE UNIVERSITY**  
FOR THE LAST SEVEN FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2012	\$ 1,612,000	\$ 128,960	\$ 80,600	\$ 48,360	5.00 %
2011	1,606,250	128,500	77,100	51,400	4.80 %
2010	1,894,737	151,579	108,000	43,579	5.70 %
2009	1,865,385	149,231	97,000	52,231	5.20 %
2008	2,017,544	161,404	115,000	46,404	5.70 %
2007	1,880,769	150,462	97,800	52,662	5.20 %
2006	1,724,528	137,962	91,400	46,562	5.30 %

(1) Ten years of data is not available, but will be accumulated over time.  
(2) For fiscal years 2006, 2007, 2008, 2009, 2010, 2011, and 2012, projections are based upon the University's fiscal years 2008-2010, 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, and 2014-2016 capital improvement plans, respectively.  
(3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 13  
**LEGAL DEBT MARGIN INFORMATION**  
**UNIVERSITY OF ARIZONA**  
FOR THE LAST SIX FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2012	\$ 1,611,765	\$ 128,941	\$ 82,200	\$ 46,741	5.10 %
2011	1,556,364	124,509	85,600	38,909	5.50
2010	1,817,647	145,412	92,700	52,712	5.10
2009	1,681,818	134,545	92,500	42,045	5.50
2008	1,681,132	134,491	89,100	45,391	5.30
2007	1,657,971	132,638	114,400	18,238	6.90

- (1) Ten years of data is not available, but will be accumulated over time.  
(2) For fiscal years 2007, 2008, 2009, 2010, 2011, and 2012, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, and 2014-2016 capital improvement plans, respectively.  
(3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 14  
**LEGAL DEBT MARGIN INFORMATION**  
**NORTHERN ARIZONA UNIVERSITY**  
FOR THE LAST SIX FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2012	\$ 427,586	\$ 34,207	\$ 24,800	\$ 9,407	5.80 %
2011	405,109	32,409	22,200	10,209	5.48
2010	423,601	33,888	28,000	5,888	6.61
2009	419,448	33,556	28,900	4,656	6.89
2008	430,360	34,429	27,500	6,929	6.39
2007	410,811	32,865	30,400	2,465	7.40

- (1) Ten years of data is not available, but will be accumulated over time.  
(2) For fiscal years 2007, 2008, 2009, 2010, 2011, and 2012, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, and 2014-2016 capital improvement plans, respectively.  
(3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

## STATE OF ARIZONA

## SCHEDULE 15

**PLEDGED-REVENUE COVERAGE****ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2012

(Expressed in Thousands)

Fiscal Year	(1), (2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2012	\$ 392,648	\$ 67,885	\$ 71,113	\$ 138,998	2.8
2011	504,175	71,770	83,960	155,730	3.2
2010	502,874	68,140	87,661	155,801	3.2
2009	509,183	64,190	89,825	154,015	3.3
2008	658,616	60,645	75,538	136,183	4.8
2007	635,140	57,825	73,785	131,610	4.8
2006	624,408	54,830	62,222	117,052	5.3
2005	461,763	44,265	60,459	104,724	4.4
2004	557,854	51,155	53,149	104,304	5.3
2003	540,540	44,490	41,932	86,422	6.3

(1) The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.

(2) Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2005 is net of a \$118 million distribution to the State General Fund. Fiscal year 2009 is net of \$66 million, 2010 is net of \$44 million, and 2011 is net of \$45 million distribution to the State General Fund.

## STATE OF ARIZONA

## SCHEDULE 16

**PLEDGED-REVENUE COVERAGE****ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2012

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2012	\$ 216,281	\$ 55,460	\$ 48,129	\$ 103,589	2.1
2011	206,545	45,970	42,496	88,466	2.3
2010	199,672	33,315	38,225	71,540	2.8
2009	219,165	13,825	17,193	31,018	7.1
2008	253,742	19,045	10,673	29,718	8.5
2007	262,264	-	-	-	N/A
2006	316,491	80,375	1,566	81,941	3.9
2005	316,806	208,625	14,318	222,943	1.4
2004	288,600	199,400	23,553	222,953	1.3
2003	268,721	190,415	31,533	221,948	1.2

(1) The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

## STATE OF ARIZONA

## SCHEDULE 17

**PLEDGED-REVENUE COVERAGE****SCHOOL FACILITIES BOARD STATE SCHOOL IMPROVEMENT REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2012

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service			Coverage
		Principal	Interest	Total	
2012	\$ 542,395	\$ 41,405	\$ 22,804	\$ 64,209	8.45
2011	514,346	39,215	25,088	64,303	8.00
2010	504,391	37,230	27,074	64,304	7.84
2009	558,900	35,420	28,885	64,305	8.69
2008	645,828	33,810	30,498	64,308	10.04
2007	666,184	31,055	31,893	62,948	10.58
2006	628,471	34,480	30,052	64,532	9.74
2005	538,346	28,485	36,060	64,545	8.34
2004	487,215	27,215	37,568	64,783	7.52
2003	447,841	25,010	36,901	61,911	7.23

- (1) Pledged revenues consist of education transaction privilege tax revenues. These revenues result from a .6% increase in the State transaction privilege and use tax rate that was approved by a statewide vote at the November 2000 election.
- (2) Principal does not include sinking fund deposits of \$1,270 each year, beginning in fiscal year 2003 and ending in fiscal year 2007, that will be sufficient to retire bonds with a par amount of \$6,350 upon maturity, in fiscal year 2016. Additionally, principal does not include sinking fund deposits of \$1,538 each year, beginning in fiscal year 2006 and ending in fiscal year 2018, that will be sufficient to retire bonds with a par amount of \$20,000 upon maturity, in fiscal year 2018.

## STATE OF ARIZONA

## SCHEDULE 18

**PLEDGED-REVENUE COVERAGE****SCHOOL FACILITIES BOARD STATE SCHOOL TRUST REVENUE BONDS**

FOR THE LAST NINE FISCAL YEARS (1)

FISCAL YEAR ENDED JUNE 30, 2012

(Expressed in Thousands)

Fiscal Year	(2) (3) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2012	\$ 39,155	\$ 17,400	\$ 6,846	\$ 24,246	1.61
2011	42,191	16,535	7,714	24,249	1.74
2010	38,147	15,710	8,539	24,249	1.57
2009	72,263	15,105	9,143	24,248	2.98
2008	72,263	14,470	8,400	22,870	3.16
2007	72,263	13,980	11,524	25,504	2.83
2006	72,263	13,440	12,061	25,501	2.83
2005	72,263	13,740	11,960	25,700	2.81
2004	64,903	-	8,634	8,634	7.52

- (1) No debt service payments were due prior to fiscal year 2004.
- (2) Pledged revenues consist of expendable revenue from the State School Trust. This revenue includes the State Treasurer's formula distribution of earnings on permanent fund investments as specified in the Arizona Constitution. Additionally, the State Land Commissioner distributes interest received from financed sales of trust lands and revenue received from land trust leases, except that, under current statutes, the amount of State School Trust Revenues available to pay debt service on all State School Trust Revenue Obligations shall not exceed \$72,263. Expendable trust revenues in excess of \$72,263 must be deposited in the Classroom Site Fund.
- (3) Fiscal year 2011 pledged revenues was revised to reflect the State Land Department's 2011 annual report.

STATE OF ARIZONA  
SCHEDULE 19  
**PLEDGED-REVENUE COVERAGE**  
**LOTTERY REVENUE BONDS**  
FOR THE LAST TWO FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year	(2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2012	\$ 96,200	\$ -	\$ 20,709	\$ 20,709	4.65
2011	96,200	-	21,630	21,630	4.45

- (1) No debt service payments were due prior to fiscal year 2011.  
(2) Pledged revenues consist of lottery revenue deposited to the Lottery Fund net of operating expenses of the lottery.

STATE OF ARIZONA  
SCHEDULE 20  
**PLEDGED-REVENUE COVERAGE**  
**ARIZONA STATE UNIVERSITY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year	(1), (2) Pledged Revenue	Debt Service				Coverage
		Principal	Interest	Net Payments (Receipts) On Swap Agreements	Total	
2012	\$ 977,828	\$ 31,215	\$ 39,560	\$ 3,612	\$ 74,387	13.15
2011	876,770	28,595	35,051	3,791	67,437	13.00
2010	782,727	26,975	33,003	3,716	63,694	12.29
2009	702,797	21,555	21,896	3,692	47,143	14.91
2008	638,707	19,135	16,682	2,448	38,265	16.69
2007	580,102	17,125	21,339	186	38,650	15.01
2006	505,890	14,625	17,313	-	31,938	15.84
2005	458,177	11,205	16,307	-	27,512	16.65
2004	383,756	1,340	16,260	-	17,600	21.80
2003	325,626	-	13,754	-	13,754	23.68

- (1) Pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue.  
(2) Pledged revenues prior to payment date of 2004 have been restated to include West and Polytechnic campuses.

STATE OF ARIZONA  
SCHEDULE 21  
**PLEDGED-REVENUE COVERAGE**  
**UNIVERSITY OF ARIZONA REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year	(1)		Net Revenue Available for Debt Service	Debt Service			Coverage
	(1), (2) Gross Revenues	Direct Operating Expenses		Principal	Interest	Total	
2012	\$ 1,226,227	\$ 1,126,649	\$ 99,578	\$ 17,375	\$ 31,480	\$ 48,855	2.04
2011	1,215,062	1,056,408	158,654	24,720	28,571	53,291	2.98
2010	1,128,091	962,469	165,622	23,860	24,593	48,453	3.42
2009	1,044,354	911,440	132,914	22,725	15,437	38,162	3.48
2008	1,113,954	1,005,572	108,382	21,235	14,978	36,213	2.99
2007	982,559	899,084	83,475	17,440	14,166	31,606	2.64
2006	897,706	836,657	61,049	12,355	13,433	25,788	2.37
2005	830,077	774,014	56,063	11,815	11,817	23,632	2.37
2004	778,939	727,161	51,778	10,970	11,706	22,676	2.28
2003	726,258	667,627	58,631	12,625	12,156	24,781	2.37

- (1) Gross Revenues and Direct Operating Expenses include current operating unrestricted funds only since these are the funds that are pledged for debt service payments under the System Revenue Bond Indentures. Also excluded from expenses is interest, depreciation, and amortization.
- (2) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues, such as indirect cost recovery and certain investment income.

STATE OF ARIZONA  
SCHEDULE 22  
**PLEDGED-REVENUE COVERAGE**  
**NORTHERN ARIZONA UNIVERSITY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2012  
(Expressed in Thousands)

Fiscal Year	(1), (2)		Debt Service			Coverage
	Gross Revenues		Principal	Interest	Total	
2012	\$ 246,098	\$ 5,835	\$ 15,028	\$ 20,863	11.80	
2011	220,538	24,310	14,712	39,022	5.65	
2010	198,197	6,545	10,912	17,457	11.35	
2009	164,877	6,570	7,383	13,953	11.82	
2008	143,733	10,455	6,628	17,083	8.41	
2007	136,100	9,610	5,943	15,553	8.75	
2006	129,608	10,310	6,603	16,913	7.66	
2005	110,981	10,065	6,060	16,125	6.88	
2004	103,192	10,294	5,778	16,072	6.42	
2003	85,294	9,426	5,066	14,492	5.89	

- (1) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees and certain auxiliary enterprise revenue, investment income and indirect cost recovery revenue.
- (2) Fiscal year 2011 includes debt defeasance of \$18.7 million.

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STATE OF ARIZONA  
SCHEDULE 23  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended December 31	Population (1,3)	Personal Income (3) (in thousands)	Per Capita Personal (2) Income	Unemployment Rate (4)
2011	6,482,505	\$ 227,286,519	\$ 35,062	8.8
2010	6,413,158	216,589,552	33,773	9.8
2009	6,343,154	212,873,282	33,560	10.5
2008	6,280,362	226,465,048	36,059	7.7
2007	6,167,681	218,587,551	35,441	4.1
2006	6,029,141	206,958,398	34,326	3.6
2005	5,839,077	188,152,439	32,223	4.2
2004	5,652,404	170,026,128	30,080	4.2
2003	5,510,364	155,607,258	28,239	5.0
2002	5,396,255	148,174,872	27,459	5.6

- (1) These are midyear population estimates of the U.S. Bureau of the Census.  
(2) Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census.  
(3) Population and personal income estimates were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.  
(4) Unemployment rates were revised to reflect revisions made by the Office of Employment and Population Statistics.

Sources: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures).  
U.S. Bureau of the Census (also for population).  
Office of Employment and Population Statistics, formerly known as the Research Administration at the Arizona Department of Commerce (for unemployment rate).

STATE OF ARIZONA  
SCHEDULE 24  
**PRINCIPAL EMPLOYERS**  
CURRENT YEAR AND NINE YEARS AGO

Employer	Calendar Year Ended December 31, 2011			Calendar Year Ended December 31, 2002		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	49,800	1	1.64 %	59,348	1	2.30 %
Wal-Mart Stores Inc.	30,634	2	1.01	13,800	6	0.54
Banner Health	24,825	3	0.82	13,973	4	0.54
City of Phoenix	15,100	4	0.50	12,917	7	0.50
Wells Fargo	13,308	5	0.44	-	-	-
Bank of America	13,300	6	0.44	-	-	-
Maricopa County	12,792	7	0.42	13,860	5	0.54
Raytheon Missile Systems	11,500	8	0.38	9,700	10	0.38
Arizona State University	11,185	9	0.37	-	-	-
Apollo Group, Inc.	11,000	10	0.36	-	-	-
Honeywell International	-	-	-	17,500	2	0.68
Motorola, Inc.	-	-	-	15,500	3	0.60
The Kroger Company	-	-	-	9,837	8	0.38
U.S. Postal Service	-	-	-	9,756	9	0.38
<b>Total</b>	<b>193,444</b>		<b>6.38 %</b>	<b>176,191</b>		<b>6.84 %</b>

Source: Arizona Department of Transportation CAFR 2012.

STATE OF ARIZONA  
SCHEDULE 25  
**STATE EMPLOYEES BY FUNCTION (1)**  
FOR THE LAST NINE FISCAL YEARS (2)  
FISCAL YEAR ENDED JUNE 30, 2012

	Fiscal Year					
	2012	2011	2010	2009	2008	2007
<b>FULL-TIME EQUIVALENT EMPLOYEES</b>						
General government:						
Lottery	104.0	104.0	104.0	110.0	110.0	110.0
Arizona State Retirement System	236.0	236.0	236.0	236.0	235.0	231.0
Department of Revenue	935.0	935.0	863.0	1,164.0	1,164.0	1,148.0
All other	2,427.6	2,646.5	2,746.5	2,989.2	2,999.2	2,957.5
Health and welfare:						
Department of Economic Security	3,726.0	3,726.0	4,201.0	4,201.0	4,099.2	3,874.4
Arizona Health Care Cost Containment System	1,407.3	1,423.0	1,484.0	1,635.8	1,629.0	1,617.3
Department of Health Services	1,513.3	1,513.3	1,538.6	1,699.1	1,702.1	1,680.4
All other	1,098.5	954.5	966.5	981.5	981.5	859.9
Inspection and regulation	1,801.2	1,807.7	1,820.7	1,943.1	1,930.1	1,853.7
Education:						
Universities	16,964.2	15,754.2	15,664.5	17,353.5	17,138.8	16,975.0
All other	886.5	896.0	972.4	1,003.4	1,001.4	969.0
Protection and safety:						
Department of Corrections	10,015.2	10,015.2	9,755.9	9,932.5	9,755.9	9,726.9
Department of Juvenile Corrections	1,001.7	1,001.7	1,050.7	1,163.7	1,163.7	1,195.7
Department of Public Safety	2,139.8	2,081.8	2,099.8	2,114.8	2,108.8	2,065.8
All other	112.6	117.9	118.4	134.9	133.9	125.4
Department of Transportation	4,548.0	4,548.0	4,548.0	4,748.0	4,744.0	4,703.5
Natural resources	930.2	937.2	956.7	1,009.7	1,007.7	967.3
<b>Total</b>	<b>49,847.1</b>	<b>48,698.0</b>	<b>49,126.7</b>	<b>52,420.2</b>	<b>51,904.3</b>	<b>51,060.8</b>

(1) Full-time equivalent employees are categorized by the function of government that their respective agency generally serves. Information is not available to distinguish between governmental, business-type, or fiduciary activities.

(2) Ten years of data is not available, but will be accumulated over time.

Source: The Executive Budget (Detail). Includes only those positions funded by appropriated funds approved in the Executive Budget.

Fiscal Year		
2006	2005	2004
110.0	110.0	110.0
221.0	199.0	197.0
1,146.0	1,024.0	1,134.0
2,898.6	2,944.3	3,003.0
3,953.7	3,902.7	3,592.9
1,583.5	1,574.5	1,530.1
1,735.5	1,734.5	1,701.5
858.5	924.2	933.2
1,827.3	1,818.5	1,815.3
16,419.5	16,027.5	15,467.4
913.8	949.5	948.1
9,726.9	10,322.4	10,295.4
1,160.5	1,151.5	1,214.4
1,901.8	1,872.0	1,853.0
127.4	120.6	149.6
4,649.0	4,626.0	4,605.0
926.9	903.2	856.9
<u>50,159.9</u>	<u>50,204.4</u>	<u>49,406.8</u>

STATE OF ARIZONA  
SCHEDULE 26  
**OPERATING INDICATORS BY FUNCTION**  
FOR THE LAST TEN FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	Fiscal Year						
	2012	2011	2010	2009	2008	2007	2006
General government:							
Number of tax returns received (in millions)	5.4	5.4	5.2	5.7	5.6	5.5	5.5
Health and welfare:							
Arizona Health Care Cost Containment System membership (2)	1,314,210	1,392,810	1,392,420	1,282,910	1,136,585	1,075,125	1,065,444
Average monthly number of recipients of temporary assistance for needy families	N/A	44,842	82,127	83,969	80,221	82,408	93,553
Average monthly number of persons receiving food stamp benefits	N/A	1,049,522	986,413	752,772	600,549	537,072	546,424
Inspection and regulation:							
Nonfatal occupational injuries and illnesses:							
Total recordable cases (in thousands) (3)	67.9	66.4	75.2	84.0	101.8	99.4	97.0
Incident rate per 100 full-time workers (3)	3.5	3.5	3.7	3.9	4.6	4.6	4.9
Education:							
Public school enrollment, grades K-12 (4)	1,066,740	1,062,200	1,068,987	1,062,618	1,132,963	1,106,207	1,084,247
Protection and safety:							
Number of miles patrolled by the Highway Patrol	19,465,944	19,953,766	21,275,292	21,987,920	21,881,034	20,282,212	19,703,282
State prison adult inmate population (5)	39,877	40,181	40,477	39,628	38,897	37,088	34,864
Transportation:							
Number of registered vehicles (6)	6,823,906	6,839,659	6,740,536	6,692,834	6,733,610	6,608,726	6,318,402
Number of driver licenses issued (7)	N/A	1,196,675	1,241,977	1,246,358	1,200,227	1,266,973	1,205,068
Natural resources:							
Game and Fish Department's license and tag sales (8)	N/A	826,385	874,442	874,363	896,143	940,223	897,159
Universities:							
University full-time equivalent students (9)	134,051	129,653	122,734	118,743	113,092	110,580	107,765
Unemployment compensation:							
Number of initial unemployment claims filed	288,097	311,472	363,189	396,755	226,772	185,397	161,869
Industrial Commission special fund:							
No-insurance awards issued	1,365	882	1,781	2,244	2,748	3,265	2,744
Number of vocational rehabilitation awards issued	125	132	128	103	118	133	124
Lottery:							
Total lottery sales (in millions)	\$ 646.7	\$ 583.5	\$ 551.5	\$ 484.5	\$ 472.9	\$ 462.2	\$ 468.7
Other business-type activities:							
Arizona Health Care Cost Containment System's Healthcare Group membership (10)	7,080	8,260	10,760	14,560	21,646	26,914	21,600

N/A = Not available

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as an academic or calendar year), as indicated in the notes below.
- (2) Approximate number of members enrolled as of June 1. Excludes membership in the Healthcare Group, which is listed separately as other business-type activities, beginning in fiscal year 2002.
- (3) Numbers represent total recordable cases and incident rates for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2012 contains data for the calendar year ending December 31, 2011. One hundred full-time workers represent 200,000 hours worked (100 times 40 hours per week times 50 weeks per year).
- (4) These enrollment counts represent a head count of all active enrollments on October 1st of each school year. The fiscal years above contain data for the academic year that occurs during that fiscal year. For example, fiscal year 2012 contains data from the October 1, 2011 enrollment figures. Starting with the 2008-09 school year, due to federal requirements, new business rules were used to calculate enrollment, so that counts are unduplicated. Prior to this, the counts are not unduplicated counts; concurrently enrolled students are counted as having an active membership in each school. Also, there was a change in data collection in 2003. From 2003 to 2008, concurrent enrollments in technology schools are included, which may additionally overstate aggregated enrollment figures.
- (5) Beginning in 2007, the state prison inmate population on the 2 Year Prison Population Trend Report excludes the inmate count from the county jail. For fiscal years 2006 and prior, the number includes both the county jail and the outside count of inmates.
- (6) Count represents the total number of vehicles registered as of the end of the fiscal year. Starting with fiscal year 2002, a new category for "unassigned vehicles" was added to more fully reflect the total count of all registered vehicles.
- (7) Count represents the number of driver licenses issued during that fiscal year, beginning July 1 and ending June 30.
- (8) Numbers represent sales for licenses, stamps, and tags for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2012 contains data for the calendar year ending December 31, 2011.
- (9) Enrollment figures represent the number of full-time equivalent students for the fall semester. The fiscal years above contain data for the fall semester that occurs during that fiscal year. For example, fiscal year 2012 contains data for the fall 2011 semester. These figures are generated by calculating one full-time equivalent student for each 15 student credit hours produced in lower-division undergraduate courses, each 12 student credit hours produced in upper-division undergraduate courses, and each 10 student credit hours produced in graduate courses.
- (10) Approximate number of members enrolled as of June 1.

Sources: The State Departments of Transportation, Public Safety, Corrections, Education, Game and Fish, Economic Security, Revenue, the Industrial Commission of Arizona, Arizona Lottery, Arizona Health Care Cost Containment System, Arizona Board of Regents, and the U.S. Department of Labor.

Fiscal Year		
2005	2004	2003
6.0	6.0	5.3
1,075,873	971,292	955,600
105,517	122,577	121,193
546,369	521,992	442,320
87.1	85.7	95.9
4.7	4.8	5.1
1,043,704	1,002,630	970,283
19,922,704	19,229,079	18,363,977
32,710	31,937	30,898
5,945,131	5,638,799	5,311,590
1,158,223	1,122,893	1,039,780
808,055	835,669	865,634
104,685	102,461	100,258
200,282	227,585	255,579
3,281	3,300	2,954
102	139	150
\$ 397.6	\$ 366.6	\$ 322.3
14,626	11,218	11,400

STATE OF ARIZONA  
 SCHEDULE 27  
**CAPITAL ASSET STATISTICS BY FUNCTION**  
 FOR THE LAST TEN FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2012

	Fiscal Year						
	2012	2011	2010	2009	2008	2007	2006
<b><u>FUNCTIONS/PROGRAMS</u></b>							
Protection and safety:							
Number of adult prison facilities (3)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (2)	6,751	6,722	6,789	6,753	6,785	6,817	6,922
Number of bridges (2)	4,754	4,741	4,700	4,648	4,637	4,648	4,676
Natural resources:							
State Trust acres	9,302,256	9,252,495	9,258,071	9,259,296	9,260,253	9,262,781	9,267,377
Universities:							
Number of facilities (4)	1,711	1,740	1,737	1,670	1,669	1,663	1,002
Gross square feet (in thousands) (4)	39,933	37,967	37,589	37,186	36,000	34,946	20,154

N/A = Not available

Note: No capital asset indicators are available for the general government, health and welfare, inspection and regulation, education, unemployment compensation, Industrial Commission special fund, Lottery, and other business-type activity functions.

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as a calendar year), as indicated in the notes below.
- (2) These are the number of center lane miles and bridges that the Arizona Department of Transportation accounts for under the modified approach, which is discussed in the Required Supplementary Information portion of this report.
- (3) The Arizona Department of Corrections also contracts with private prison facilities to provide custody and treatment.
- (4) In addition to academic/support facilities, auxiliary enterprise facilities are also reported. These would include essentially self-supporting entities, such as residence halls and parking structures.

Sources: The State Departments of Transportation, Land, and Corrections and the Universities.

Fiscal Year		
2005	2004	2003
10	10	10
6,816	6,912	6,801
4,608	4,488	4,463
9,269,723	9,271,580	9,279,243
N/A	N/A	N/A
N/A	N/A	N/A

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Ron Santa Cruz  
Michael J. Kallaur, CPA  
Chris Freitag, CPA  
Cody Johnson, MBA, CPA

Neil Broadstock, MBA, CPA, CMA, CGFM  
Christopher Lesure  
Gary Kern

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