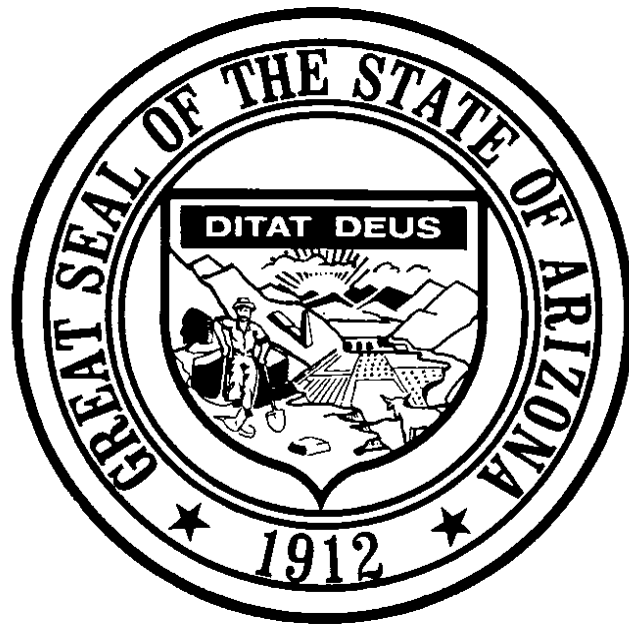


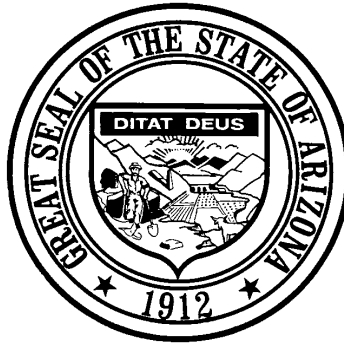
STATE OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2016



Douglas A. Ducey
GOVERNOR



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



STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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INTRODUCTORY SECTION



Douglas A. Ducey
Governor

Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

June 6, 2017

The Honorable Douglas A. Ducey,
Governor of the State of Arizona;
Members of the Legislature;
Scott Bales, 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, 2016. Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the major and non-major funds of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

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

INTERNAL CONTROLS

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

INDEPENDENT AUDIT

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

FINANCIAL REPORTING ENTITY OF THE STATE

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

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

ARIZONA

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

PROFILE OF THE GOVERNMENT

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

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

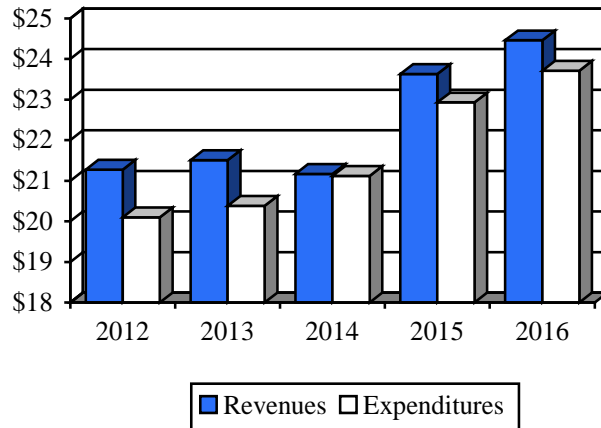
BUDGETARY CONTROLS

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

GENERAL FUND BALANCE

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

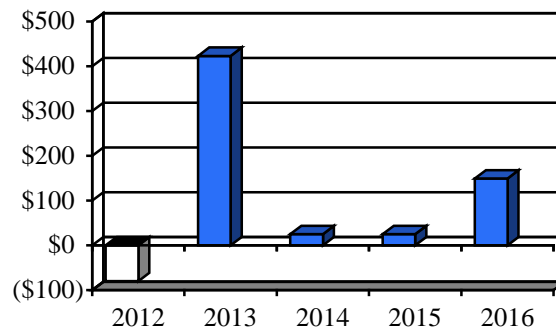
Graph 1
General Fund Revenues and Expenditures
for last 5 fiscal years
(Dollars in billions)



The General Fund ended the June 30, 2016 fiscal year with a total fund balance of \$149.1 million. This compares to the previous year's total fund balance of \$24.9 million, as restated.

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 Industry Employment Projections Presentation released on March 09, 2017, by the Office of Economic Opportunity within the Arizona Department of Administration.

The employment projections estimation methodology is described below:

- Projections are based on past industry employment trends and are refined by a review of current economic developments
- Short-term projections estimate employment from 2016 Quarter 3 to 2018 Quarter 2
- Quarterly Census of Employment and Wages (QCEW) data was used as the principal data source
- The industry classification structure differs slightly from CES industry classification
 - Notably: State and local government education employment is categorized in NAICS 611: Educational Services

Industry projection methodology included and excluded data as follows:

- Industry Projections Estimates **Include**:
 - Nonfarm employment by subsector group (3-digit NAICS)
 - Self-employed workers who work for profit or fees in their own business, profession, trade, or farm
 - Private household workers employed as domestic workers whose primary activities are to maintain the household
 - Railway and religious organization employees
- Industry Projections Estimates **Exclude**:
 - Farm employment in establishments engaged in growing crops, raising animals, harvesting fish and other animals from a farm, ranch, or natural habitats

Economic assumptions influencing the projections are as follows:

- The institutional framework of the U.S. economy will not change radically
- Recent technological and scientific trends will continue
- The long-term employment patterns will continue in most industries
- Federal, state, and local government agencies are expected to operate under budgetary constraints
- No major events will occur that will significantly alter the industrial structure of the economy, the occupational staffing patterns, or the rate of long-term growth
- Population growth rates and age distributions will not differ significantly from the US Census Bureau presently available
- Attitudes toward work, education, income, and leisure will not change significantly

The following are highlights of Arizona's industry employment forecast:

- Arizona is projected to gain 138,553 jobs over the two-year period (2.4% annual growth)
- Ten supersectors are projected to add jobs over the two-year period
 - Natural Resources and Mining is projected to have losses over the two-year period.
- Educational and Health Services is expected to add the largest number of jobs (38,757) over the two-year period or 3.3% annualized growth
- Construction is expected to have the largest percentage gain at 3.9% annualized growth (10,943 jobs)
- Sectors with the largest expected gains are: Educational and Health Services (38,757 jobs), Professional and Business Services (27,852 jobs), Leisure and Hospitality (19,018 jobs), Trade, Transportation and Utilities (15,925 jobs), and Construction (10,943 jobs)

The following tables summarize Arizona’s sector employment growth rates and industry shares information:

Annual Growth Rate (Compound)		
	2014 Q2 -2016 Q2(a)	2016 Q2 - 2018 Q2(b)
Total All Industries	2.7%	2.4%
Construction	3.0%	3.9%
Professional and Business Services	3.5%	3.3%
Education and Health Services	2.7%	3.3%
Leisure and Hospitality	3.4%	2.8%
Financial Activities	4.0%	2.7%
Trade, Transportation, and Utilities	2.1%	1.5%
Other Services (Except Government)	2.7%	1.0%
Information	2.5%	0.7%
Manufacturing	0.7%	0.5%
Government	0.3%	0.3%
Natural Resources and Mining	(1.4%)	(1.1%)

- a) Historical
- b) Forecast

Arizona Major Industry Groups (2016 & 2018 Employment Share)

	2016(c)	2018(d)
Government	161,476	162,416
Other Services (Except Government)	93,804	95,747
Accommodation and Food Services	270,946	286,783
Arts, Entertainment, and Recreation	59,265	62,446
Health Care and Social Assistance	362,712	392,572
Educational Services	216,841	225,738
Administrative and Support and Waste Management and Remediation	236,539	251,412
Management of Companies and Enterprises	31,164	32,879
Professional, Scientific, and Technical Services	139,156	150,150
Real Estate and Rental and Leasing	49,487	50,429
Finance and Insurance	146,990	156,927
Information	47,119	47,749
Transportation and Warehousing	82,402	86,519
Retail Trade	323,243	333,688
Wholesale Trade	93,284	94,471
Manufacturing	158,990	160,583
Construction	135,857	146,800
Utilities	22,887	23,063
Mining	11,583	11,079
Agriculture, Forestry, Fishing, and Hunting	21,105	20,872
Self-Employed Workers, All Jobs	169,259	177,388

- c) Estimated
- d) Projected

MAJOR INITIATIVES

The Major Initiatives for the year ended June 30, 2016, were as follows:

- In May 2016, voters passed Proposition 123 and Proposition 124, both of which will help the State’s short-term and long-term financial position.
 - Proposition 123 settled the Cave Creek v. Dewitt school funding lawsuit, which reduced uncertainty in future budgets as the State faced the possibility of being required to increase education funding by over \$300 million in the current year and make over \$1 billion in back payments.

- Proposition 124 is expected to reduce the State's employer contribution costs to the Public Safety Personnel Retirement System (PSPRS) by replacing the Permanent Benefit Increase mechanism for current and future PSPRS members, which was capped at 4%, with a new cost-of-living adjustment capped at 2%; modified the Defined Benefit plan for future PSPRS members; and created a new PSPRS defined contribution plan.
- An increased balance-forward from FY 2015 of \$300 million above the forecasted amount increased available resources for the State General fund.
- Deferral payments from FY 2016 to FY 2017 in the Universities, the Department of Economic Security, and the Department of Child Safety were eliminated with a \$232 million payment.
- Reserves in the Budget Stabilization Fund were maintained at \$461 million.
- Governor Doug Ducey's vision is for Arizona to be the number one state to live, work, play, recreate, retire, visit, do business, and get an education. To achieve this vision, Arizona state government is transforming how it thinks and does business as one cohesive enterprise. The Arizona Management System, which is based on principles of Lean management, provides the framework and tools to engage employees at all levels in data-driven decision-making and disciplined problem solving, always with the ultimate end user of our products and services (i.e., the customer) in mind. Citizens expect government to operate at the speed of business to deliver value and meaningful return on taxpayer investment. This "burning platform" gives urgency, direction and purpose to all that Arizona state agencies do. It is the reason why the culture of Arizona government must change for the better. The Arizona Management System will help do just that.

AWARDS AND ACKNOWLEDGMENTS

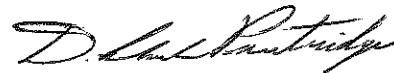
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arizona for its CAFR for the fiscal year ended June 30, 2015. This was the twelfth consecutive year that the State has achieved 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.



Craig C. Brown
Director



D. Clark Partridge
State Comptroller



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

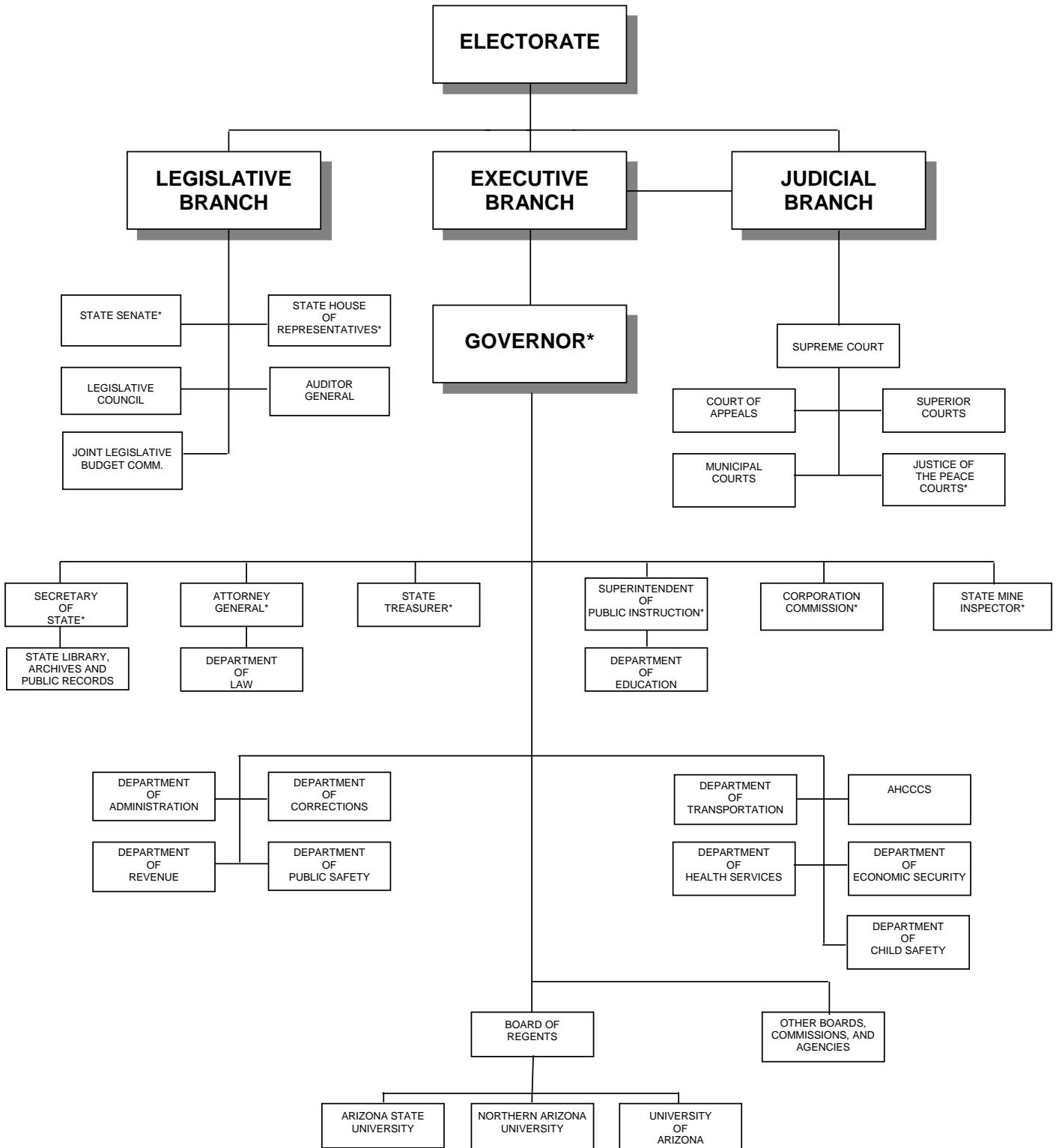
State of Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

ARIZONA STATE GOVERNMENT ORGANIZATION



* ELECTED OFFICIALS

STATE OF ARIZONA
PRINCIPAL STATE OFFICIALS
JUNE 30, 2016

ELECTED OFFICIALS – as of June 30, 2016

Douglas A. Ducey, Governor
Senator Andy Biggs, President of the Senate
Representative David M. Gowan Sr., Speaker of the House
Michele Reagan, Secretary of State
Mark Brnovich, Attorney General
Joe Hart, State Mine Inspector
Jeff DeWit, State Treasurer

Diane Douglas, Superintendent of Public Instruction
Doug Little, Chairman – Corporation Commission
Tom Forese, Commissioner – Corporation Commission
Andy Tobin, Commissioner – Corporation Commission
Bob Stump, Commissioner – Corporation Commission
Bob Burns, Commissioner – Corporation Commission

APPOINTED OFFICIALS – as of June 30, 2016

Executive Officials

Craig Brown, Director – Department of Administration
Charles L. Ryan, Director – Department of Corrections
Timothy Jeffries, Director – Department of Economic Security
Greg McKay, Director – Department of Child Safety
David Briant, Director – Department of Revenue
Frank Milstead, Director – Department of Public Safety
Dr. Cara Christ, Director – Department of Health Services
Tom Betlach, Director – Arizona Health Care Cost Containment System
John Halikowski, Director – Department of Transportation

Judicial Officials

Scott Bales, 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. Rita Cheng, President – Northern Arizona University
Dr. Ann W. Hart, President – University of Arizona

ELECTED OFFICIALS – as of June 6, 2017

Douglas A. Ducey, Governor
Senator Steve Yarbrough, President of the Senate
Representative J.D. Mesnard, Speaker of the House
Michele Reagan, Secretary of State
Mark Brnovich, Attorney General
Joe Hart, State Mine Inspector
Jeff DeWit, State Treasurer

Diane Douglas, Superintendent of Public Instruction
Tom Forese, Chairman – Corporation Commission
Doug Little, Commissioner – Corporation Commission
Andy Tobin, Commissioner – Corporation Commission
Boyd Dunn, Commissioner – Corporation Commission
Bob Burns, Commissioner – Corporation Commission

APPOINTED OFFICIALS – as of June 6, 2017

Executive Officials

Craig Brown, Director – Department of Administration
Charles L. Ryan, Director – Department of Corrections
Henry Darwin, Interim Director – Department of Economic Security
Greg McKay, Director – Department of Child Safety
David Briant, Director – Department of Revenue
Frank Milstead, Director – Department of Public Safety
Dr. Cara Christ, Director – Department of Health Services
Tom Betlach, Director – Arizona Health Care Cost Containment System
John Halikowski, Director – Department of Transportation

Judicial Officials

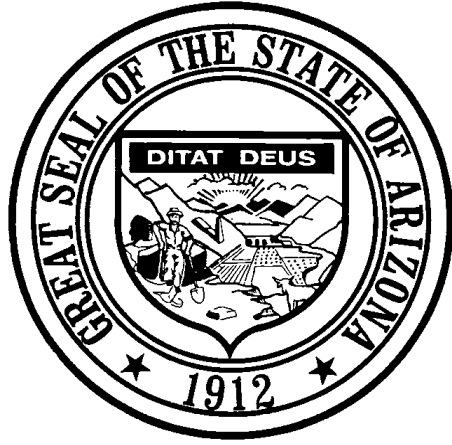
Scott Bales, Chief Justice – Supreme Court

Legislative Officials

Michael E. Braun, Executive Director – Legislative Council
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Dr. Michael M. Crow, President – Arizona State University
Dr. Rita Cheng, President – Northern Arizona University
Dr. Ann W. Hart, President – University of Arizona



FINANCIAL SECTION

FINANCIAL SECTION

INDEPENDENT
AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

The Honorable Doug Ducey, Governor
State of Arizona

The Honorable Steve Yarbrough, President
Arizona State Senate

The Honorable J.D. Mesnard, Speaker
Arizona House of Representatives

The Honorable Scott Bales, Chief Justice
Arizona Supreme Court

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

Opinion unit/department	Assets/deferred outflows of resources	Revenues/ additions/other financing sources
<u>Government-wide statements</u>		
<u>Governmental activities</u>		
Arizona Department of Transportation	62.32%	11.54%
Arizona Health Care Cost Containment System	3.76%	25.43%
Early Childhood Development and Health Board	1.07%	0.47%
<u>Business-type activities</u>		
Arizona Correctional Industries	0.25%	0.68%
Arizona Department of Transportation	0.60%	0.01%
Arizona State Lottery	1.25%	14.22%
<u>Aggregate discretely presented component units</u>	100.00%	100.00%
<u>Fund statements</u>		
<u>Major funds:</u>		
<u>General fund</u>		
Arizona Department of Transportation	0.17%	0.02%
Arizona Health Care Cost Containment System	34.63%	28.76%
<u>Transportation and aviation planning, highway maintenance and safety fund</u>		
Arizona Department of Transportation	100.00%	100.00%
<u>Aggregate remaining fund information</u>		
Arizona Correctional Industries	0.05%	0.46%
Arizona Department of Transportation	0.54%	3.87%
Arizona Health Care Cost Containment System	0.15%	4.38%
Arizona State Lottery	0.24%	9.57%
Arizona State Retirement System	68.50%	26.25%
Corrections Officer Retirement Plan	3.39%	1.93%
Early Childhood Development and Health Board	0.75%	1.55%
Elected Officials' Retirement Plan	0.63%	0.43%
Public Safety Personnel Retirement System	12.89%	8.86%

Those statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for those departments, retirement plans, and component units, are based solely on the other auditors' reports. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The other auditors did not audit the financial statements of the Arizona Power Authority and the Universities-Affiliated Component Units, except for those of the Thunderbird School of Global Management and ASU Preparatory Academy, Inc., which were reported as discretely presented component units, in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of matter

As discussed in Note 1.Q and Note 9 to the financial statements, for the year ended June 30, 2016, the State adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

As described in Note 9 to the financial statements, the State restated beginning fund balances/net positions of its financial statements for the year ended June 30, 2016, primarily as a result of funds that were previously reported in the general fund and reclassified to the internal service funds. Our opinions are not modified with respect to this matter.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the following be presented to supplement the basic financial statements:

Required supplementary information	Pages
Management's discussion and analysis	21 - 33
Budgetary comparison schedules	143 - 155
Infrastructure assets	156 - 158
Schedules of the State's proportionate share of the net pension liability—cost-sharing pension plans	159 - 160
Schedules of changes in the State's net pension liability and related ratios—agent pension plans	161 - 162
Schedules of state pension contributions	163 - 165
Notes to required supplementary information	166
Single-employer OPEB plan funding progress	167

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and other information

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

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

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

Other reporting required by *Government Auditing Standards*

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

Debbie Davenport
Auditor General

June 6, 2017

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, 2016. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

FINANCIAL HIGHLIGHTS

Government-wide:

- The assets and deferred outflows of resources of the State exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$24.6 billion (reported as net position). Of this amount, a deficit of \$4.9 billion exists for unrestricted net position, \$8.0 billion is restricted for specific purposes (restricted net position), and \$21.5 billion is net investment in capital assets.
- The State's total net position increased in fiscal year 2016 by \$1.6 billion. Net position of governmental activities increased by \$1.1 billion, while net position of the business-type activities increased by \$474.9 million.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$7.7 billion, an increase of \$100.1 million from the beginning of the year. After accounting for non-spendable, restricted, and committed fund balances of \$5.1 billion, \$1.6 billion, and \$1.1 billion, respectively, the State's unassigned fund balance had a deficit of \$100.2 million, or (1%) of combined fund balances.
- As of the close of the fiscal year, unassigned fund balance for the General Fund had a deficit of \$78.9 million, which is less than 1% of total General Fund expenditures.
- The Land Endowments Fund reported fund balance at fiscal year-end of \$5.1 billion, a decrease of \$48.3 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.
- The enterprise funds reported net position at fiscal year-end of \$3.1 billion, an increase of \$471.3 million during the year.

Long-term Debt:

- The State's total long-term primary government debt decreased during the fiscal year to \$9.5 billion, a decrease of \$504.2 million or (5%). Changes during the year included the addition of revenue bonds and certificates of participation (COPs) of \$360.0 million and \$427.6 million, respectively. Also, the State retired \$575.1 million of revenue bonds and \$604.3 million of certificates of participation. Included in the change in long-term primary government debt are increases and decreases in net issuance premiums of \$121.7 million and \$84.1 million, respectively.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Government-wide statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. The State's three universities are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate entities for which the State is considered to be financially accountable, or organizations that raise and hold economic resources for the direct benefit of the State. The Water Infrastructure Finance Authority, the Arizona Power Authority, the Rio Nuevo Multipurpose Facilities District, the Greater Arizona Development Authority, and the Arizona Commerce Authority are discretely presented component units reported by the State. The State has included component units affiliated with the Universities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP), as adopted by the Financial Accounting Standards Board. These organizations include the Arizona State University Foundation, the University of Arizona Foundation, the Arizona Capital Facilities Finance Corporation, and other non-major component units affiliated with the Universities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by the Governmental Accounting Standards Board (GASB), and include a statement of financial position (**page 40**) and a statement of activities (**page 44**). See **pages 65-69 and 130-139** 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 172** begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

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

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

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

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

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

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

Notes to the Financial Statements

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

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

Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information (RSI) that further explains and supports the information in the financial statements. The RSI 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. The RSI also includes up to ten years of information on the State's pension plans, including schedules on the State's proportionate share of the net pension liability, changes in the net pension liability and related ratios, and State pension contributions. The RSI also includes schedules of condition and maintenance data regarding certain portions of the State's infrastructure and the single-employer Other Post-Employment Benefits (OPEB) plan funding progress schedule.

Required supplementary information begins on page 143 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 Fund are also included.

Other supplementary information begins on page 172 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

State of Arizona-Primary Government Net Position as of June 30, 2016 and 2015 (expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2016	2015, as restated	2016	2015, as restated	2016	2015, as restated
Current assets	\$ 6,333,278	\$ 5,821,787	\$ 1,822,589	\$ 1,694,636	\$ 8,155,867	\$ 7,516,423
Capital assets	22,971,687	22,239,522	5,074,870	4,827,779	28,046,557	27,067,301
Other non-current assets	6,326,774	6,459,576	2,650,605	2,572,773	8,977,379	9,032,349
Total Assets	35,631,739	34,520,885	9,548,064	9,095,188	45,179,803	43,616,073
Deferred outflows of resources	711,744	738,491	290,441	281,585	1,002,185	1,020,076
Current liabilities	4,926,872	4,565,882	884,383	719,520	5,811,255	5,285,402
Non-current liabilities	9,807,941	10,012,362	5,398,775	5,447,263	15,206,716	15,459,625
Total Liabilities	14,734,813	14,578,244	6,283,158	6,166,783	21,017,971	20,745,027
Deferred inflows of resources	235,358	405,875	327,227	456,747	562,585	862,622
Net position:						
Net investment						
in capital assets	19,722,730	18,790,889	1,761,694	1,642,507	21,484,424	20,433,396
Restricted	6,856,271	7,170,289	1,191,605	895,616	8,047,876	8,065,905
Unrestricted	(5,205,689)	(5,685,921)	274,821	215,120	(4,930,868)	(5,470,801)
Total Net Position	\$ 21,373,312	\$ 20,275,257	\$ 3,228,120	\$ 2,753,243	\$ 24,601,432	\$ 23,028,500

For the year ended June 30, 2016, the State's combined net position totaled \$24.6 billion, reflecting an increase of \$1.6 billion during the current fiscal year.

The largest portion of the State's net position (87%) represents net investment in capital assets of \$21.5 billion. Additions to land, roads, and bridges provided the majority of the governmental activities increase in net investment in capital assets of \$931.8 million. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt are planned to be provided from other sources, since the capital assets themselves are not typically used to liquidate these liabilities.

The State's net position also included \$8.0 billion (33%) of resources that are subject to external restrictions on how they may be used. The governmental activities decrease in restricted net position of \$314.0 million is largely a result of a decrease of \$127.9 million in the amount restricted by the State's Constitution for basic education funded by the Land Endowments Fund, a decrease of \$120.0 million in the amount restricted for health and welfare, and a decrease of \$70.1 million in the amount restricted for capital projects. The business-type activities increase in restricted net position of \$296.0 million is primarily due to an increase of \$193.8 million in the amount restricted for the Unemployment Compensation Fund and an increase of \$91.4 million in the amount restricted for the Insurance Department Guaranty Funds.

After accounting for the above net position restrictions, the State has a remaining deficit of \$4.9 billion (20%) reported as unrestricted net position.

More detailed information regarding beginning net position restatements is on page 124.

State of Arizona-Primary Government
Changes in Net Position for Fiscal Years June 30, 2016 and 2015
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2016	2015, as restated	2016	2015, as restated	2016	2015, as restated
Revenues:						
Program revenues:						
Charges for services	\$ 1,191,069	\$ 1,124,046	\$ 3,987,187	\$ 3,649,357	\$ 5,178,256	\$ 4,773,403
Operating grants and contributions	13,532,247	13,200,146	1,452,562	1,320,612	14,984,809	14,520,758
Capital grants and contributions	870,644	706,089	11,911	43,321	882,555	749,410
General revenues:						
Sales taxes	6,455,837	6,290,950	69,927	64,757	6,525,764	6,355,707
Income taxes	4,511,674	4,430,602	-	-	4,511,674	4,430,602
Tobacco taxes	318,902	314,522	-	-	318,902	314,522
Property taxes	51,735	52,241	-	-	51,735	52,241
Motor vehicle and fuel taxes	1,823,998	1,694,779	-	-	1,823,998	1,694,779
Other taxes	616,580	560,920	-	-	616,580	560,920
Unrestricted investment earnings	58,250	87,115	68,795	37,839	127,045	124,954
Unrestricted grants and contributions	115,097	39,847	548	-	115,645	39,847
Gain on sale of trust land	75,042	97,231	-	-	75,042	97,231
Miscellaneous revenue	247,462	232,658	65,143	138,931	312,605	371,589
Total Revenues	29,868,537	28,831,146	5,656,073	5,254,817	35,524,610	34,085,963
Expenses:						
General government	807,320	923,659	-	-	807,320	923,659
Health and welfare	15,152,650	14,296,714	-	-	15,152,650	14,296,714
Inspection and regulation	168,719	159,874	-	-	168,719	159,874
Education	6,136,303	5,859,267	-	-	6,136,303	5,859,267
Protection and safety	1,585,620	1,568,732	-	-	1,585,620	1,568,732
Transportation	858,958	786,028	-	-	858,958	786,028
Natural resources	208,563	204,939	-	-	208,563	204,939
Intergovernmental revenue sharing	3,176,183	2,966,400	-	-	3,176,183	2,966,400
Interest on long-term debt	210,326	230,871	-	-	210,326	230,871
Universities	-	-	4,637,567	4,378,481	4,637,567	4,378,481
Other business-type activities	-	-	1,014,941	1,041,261	1,014,941	1,041,261
Total Expenses	28,304,642	26,996,484	5,652,508	5,419,742	33,957,150	32,416,226
Excess (deficiency) before contributions and transfers	1,563,895	1,834,662	3,565	(164,925)	1,567,460	1,669,737
Contributions to permanent endowments	-	-	5,472	5,740	5,472	5,740
Transfers	(465,840)	(601,539)	465,840	601,539	-	-
Change in Net Position	1,098,055	1,233,123	474,877	442,354	1,572,932	1,675,477
Net Position - Beginning, as restated	20,275,257	19,042,134	2,753,243	2,310,889	23,028,500	21,353,023
Net Position - Ending	\$ 21,373,312	\$ 20,275,257	\$ 3,228,120	\$ 2,753,243	\$ 24,601,432	\$ 23,028,500

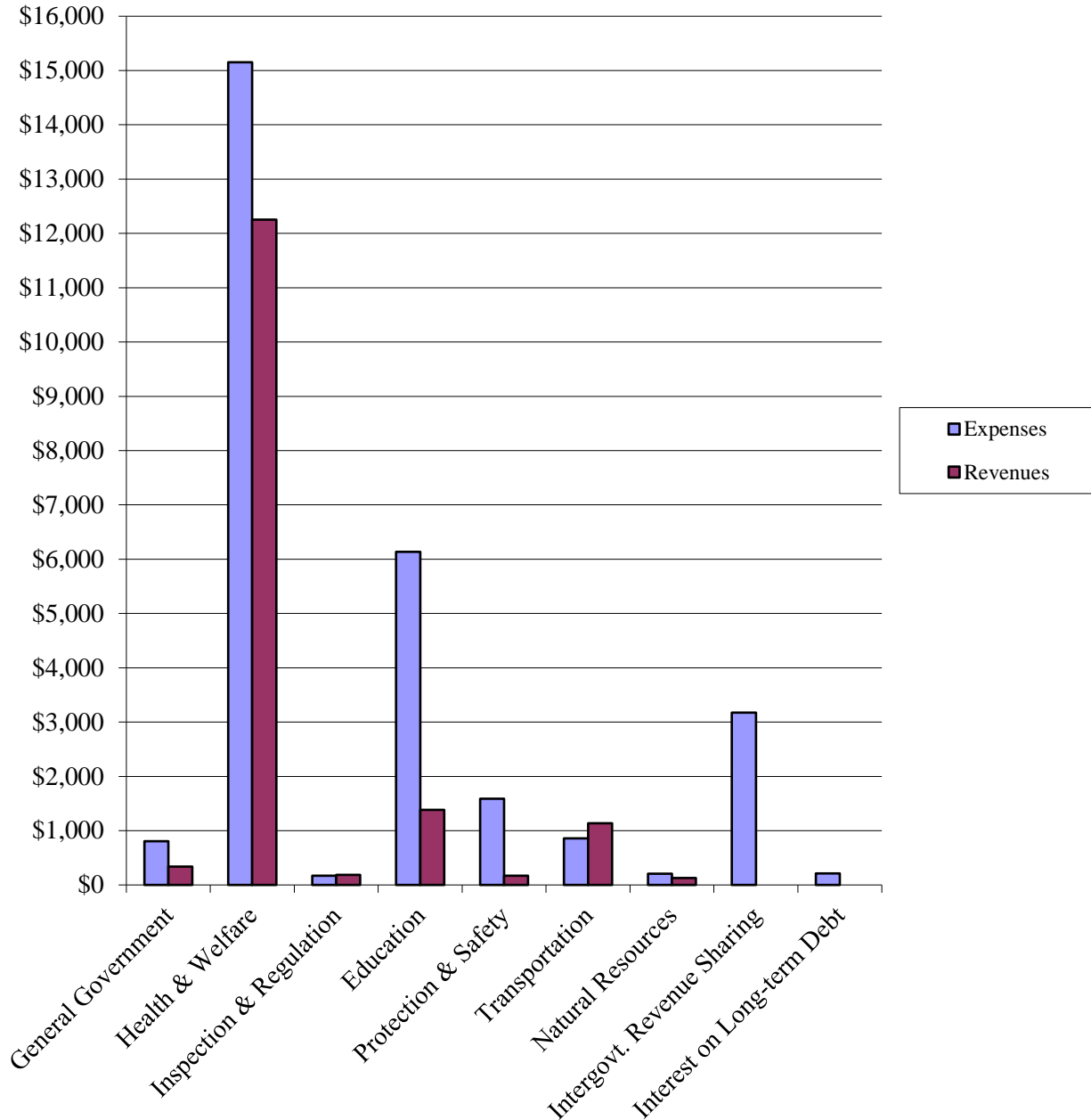
Change in Net Position

Governmental Activities – Net Position increased by \$1.1 billion from fiscal year 2015, or a 5% increase from fiscal year 2015. Reported sales and income tax revenues increased by \$164.9 million, or 3%, and \$81.1 million, or 2%, from fiscal year 2015, respectively. The increase in tax collections generally reflects increased economic activity in the State during fiscal year 2016. Net taxable sales increased by 3% from fiscal year 2015 resulting in the increased reported sales tax revenue. The largest increases in net taxable sales during fiscal year 2016 were in retail sales and restaurants and bars, while the largest decrease was in contracting. The increase in income tax revenue for the State during fiscal year 2016 reflects increases in withholding and individual tax collections. During fiscal year 2016, motor vehicle and fuel taxes increased by \$129.2 million (8%) over fiscal year 2015. In addition, capital grants and contributions, primarily for federal reimbursement of construction expenditures, increased by \$164.6 million (23%) from fiscal year 2015. Also during fiscal year 2016, operating grants and contributions increased by \$332.1 million (3%) over fiscal year 2015. This increase results mostly from enhanced federal financial participation matching rates for increased enrollment in Arizona Health Care Cost Containment System (AHCCCS) programs due to implementation of the Patient Protection and Affordable Care Act of 2010 (ACA) beginning January 1, 2014. AHCCCS experienced an increase of 140,028 members (8.2%) over fiscal year 2015. The increase in operating grants and contributions discussed above was offset by a decrease of \$315.1 million in the fair value of the Permanent Fund investment portfolio from fiscal year 2015. The increase in health and welfare expenses of \$855.9 million (6.0%) resulted primarily from the increased enrollment in the AHCCCS programs, as discussed above. The increase in education expenses of \$277.0 million (4.7%) was primarily due to Proposition 123, as discussed on **page 30**.

A comparison of the net cost (income) of services by function for the State’s governmental activities is shown below for fiscal years 2015 and 2016. 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	
	2016	2015	2016	2015
Functions/Programs:				
General government	\$ 807,320	\$ 923,659	\$ 471,422	\$ 564,883
Health and welfare	15,152,650	14,296,714	2,897,709	2,556,725
Inspection and regulation	168,719	159,874	(18,969)	(17,986)
Education	6,136,303	5,859,267	4,754,583	4,418,766
Protection and safety	1,585,620	1,568,732	1,415,087	1,350,881
Transportation	858,958	786,028	(275,619)	(196,291)
Natural resources	208,563	204,939	79,960	91,954
Intergovernmental revenue sharing	3,176,183	2,966,400	3,176,183	2,966,400
Interest on long-term debt	210,326	230,871	210,326	230,871
Total Governmental Activities	<u>\$ 28,304,642</u>	<u>\$ 26,996,484</u>	<u>\$ 12,710,682</u>	<u>\$ 11,966,203</u>

**Expenses and Program Revenues
Governmental Activities for Fiscal Year 2016
(in millions of dollars)**



Business-type Activities – Net Position increased by \$474.9 million from fiscal year 2015, or 17%. This increase is primarily due to increases in net position for the Universities and the Unemployment Compensation Fund of \$219.2 million and \$193.8 million, respectively. Non-operating revenues and transfers from the General Fund more than offset the Universities’ operating loss of \$1.1 billion. The Universities’ operating revenues increased by \$284.1 million over fiscal year 2015 primarily due to approved student tuition and fee increases, increased enrollment, and increased

nongovernmental grant and contract revenue. The increase in nongovernmental grant and contract revenue was mainly attributed to the University of Arizona’s (U of A) reimbursements from Banner Health for salaries and Graduate Medical Education Residency Program expenses. These increases were offset by a decrease in State appropriation transfers from the General Fund and increases in expenses for instruction, academic support, and scholarships and fellowships. Expense increases resulted from continued enrollment growth, as well as the U of A’s affiliation agreement with Banner Health. Also, the Unemployment Compensation Fund’s unemployment assessment revenue increased by \$21.9 million and cost of sales and benefits decreased by \$28.1 million, as compared to the prior fiscal year, due to the decline in unemployment levels. In addition, unemployment assessment revenue of \$483.0 million was higher than the cost of sales and benefits of \$291.3 million during fiscal year 2016.

A comparison of the net cost (income) of services by function for the State’s business-type activities is shown below for fiscal years 2015 and 2016. 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	
	2016	2015	2016	2015
Universities	\$ 4,637,567	\$ 4,378,481	\$ 658,206	\$ 711,314
Other	1,014,941	1,041,261	(457,358)	(304,862)
Total Business-type Activities	\$ 5,652,508	\$ 5,419,742	\$ 200,848	\$ 406,452

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, 2016, unassigned fund balance of the General Fund had a deficit of \$78.9 million, while total fund balance closed the year at \$149.1 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 deficit of less than 1% of total expenditures and other financing uses, while total fund balance is less than 1% of the same amount.

The fund balance of the State’s General Fund increased \$124.2 million during the fiscal year. Revenues exceeded expenditures by \$746.4 million, before other financing sources and uses. However, other financing sources and uses mostly offset this excess by \$622.2 million, which consist primarily of transfers to the Universities in support of higher education, offset by legislative transfers from other funds to the General Fund. Overall revenues increased by \$827.6 million (4%) and expenditures increased by \$784.3 million (3%) from fiscal year 2015. Primary reasons for increases in fund balance during the fiscal year are increased collections of sales and income taxes and increased intergovernmental revenue, including federal funding received as a result of the AHCCCS implementation of the ACA. A primary reason for decreases in fund balance during the fiscal year was increases for health and welfare expenditures, as well as increased education expenditures. These increases and decreases were discussed in the government-wide financial analysis beginning on **page 25**.

Transportation and Aviation Planning, Highway Maintenance and Safety Fund

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance increased \$13.3 million during fiscal year 2016. Although revenues exceeded expenditures by \$316.8 million, transfers to non-major governmental funds of \$304.3 million, to primarily pay debt service, largely offset this excess. Overall revenue increased by \$256.5 million (9%), however, expenditures also increased by \$301.5 million (12%), as compared to the prior fiscal year.

Land Endowments Fund

The Land Endowments Fund was established when the federal government granted Arizona statehood. Both the State's Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. For fiscal year 2016, the Land Endowments Fund total fund balance decreased \$48.3 million. Endowment investments decreased \$51.8 million, at fiscal year end, primarily due to Arizona voters passing Proposition 123 which amended the Arizona Constitution to increase distributions from the Land Endowments Fund from 2.5% to 6.9% of the average monthly market values for the immediately preceding five calendar years, except for a \$259.3 million distribution during fiscal year 2016. Along with this distribution, the endowment investments decreased due to a net decrease in the fair value of investments of \$63.5 million. These decreases were offset by realized gains of \$166.4 million and receipts from land sales of \$91.0 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 25**.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Differences between the original budget and the final amended budget resulted in a \$2.7 billion net increase in appropriations for the General Fund. Some of the significant changes in the General Fund appropriations were:

1. \$531.7 million increase due to prior fiscal year obligations that were paid in the current fiscal year per A.R.S. § 35-191.
2. \$1.1 billion increase to the Department of Education's original budget is primarily due to the basic state aid deferred payment from fiscal year 2015, which was appropriated as a supplemental appropriation in the fiscal year 2016 budget, adjustments related to the passage of Proposition 123, as well as additional state aid funding.
3. \$576.8 million increase to the AHCCCS' original budget is primarily due to supplemental appropriation increases for ACA adult expansion, Proposition 204 services, due to enrollment in excess of budgetary projections, and traditional Medicaid services. Additionally, appropriated amounts for voluntary payments from political subdivisions related to disproportionate share hospital and graduate medical education were increased from the original budget.
4. \$258.5 million increase to the Universities' original budget is primarily due to payment deferrals from fiscal year 2015, which were budgeted in fiscal year 2016, and for lease-purchase capital financing for research infrastructure facilities.
5. \$134.7 million increase to the Department of Economic Security's original budget is primarily due to payment deferrals from fiscal year 2015, which were appropriated as a supplemental appropriation in the fiscal year 2016 budget, as well as supplemental appropriations for certain Title XIX programs, and loans to the Department from the State's Budget Stabilization Fund to fund program expenses while awaiting federal reimbursement.
6. \$94.5 million increase to the Department of Child Safety's original budget is primarily due to supplemental appropriation increases for both in-home preventative and out-of-home support services, emergency, residential and foster care placement, and child-care subsidies.

The actual expenditures were less than the final budget by \$1.1 billion. Of this amount, \$92.0 million will continue as legislative multiple fiscal year spending authority for fiscal years 2016 and beyond, depending upon the budgetary

guidelines of the Legislature. The remaining \$1.0 billion represents the unused portion of the State’s legislatively authorized annual operating budget.

Additional budgetary information can be found on pages 143-152 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, 2016 totaled \$28.0 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 a 5% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled \$453.1 million.

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

- The Universities’ additions to capital assets totaled \$595.1 million and included increased investments in buildings to support instruction, research, and public service missions, as well as building renewal and other capital projects.
- The ADOT started or completed roads and bridges totaling \$672.6 million 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, 2016 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015, as restated	2016	2015, as restated
Land	\$ 3,380,840	\$ 3,115,924	\$ 238,533	\$ 228,125	\$ 3,619,373	\$ 3,344,049
Buildings	2,423,465	2,338,928	6,043,615	5,672,653	8,467,080	8,011,581
Improvements other than buildings	183,371	* 177,107	16,294	19,713	199,665	196,820
Equipment	941,394	852,394	1,656,639	1,600,405	2,598,033	2,452,799
Software and other intangibles	362,681	251,041	137,321	134,756	500,002	385,797
Collections (non-depreciable)	-	-	21,032	20,228	21,032	20,228
Infrastructure	16,122,195	* 15,781,034	546,210	533,792	16,668,405	16,314,826
Construction in progress	1,463,870	1,459,732	369,322	341,760	1,833,192	1,801,492
Development in progress	25,522	105,439	61,167	60,804	86,689	166,243
Less: accumulated depreciation	(1,931,651)	(1,842,095)	(4,015,263)	(3,784,439)	(5,946,914)	(5,626,534)
Total	\$ 22,971,687	\$ 22,239,504	\$ 5,074,870	\$ 4,827,797	\$ 28,046,557	\$ 27,067,301

* The fiscal year 2015 amounts have been reclassified for comparison with fiscal year 2016 amounts.

As provided by GASB Statement No. 34, the State has elected to record its infrastructure assets, which the ADOT is responsible for maintaining, using the modified approach as described in Note 1.G. Assets accounted for under the modified approach include 6,822 center lane miles of roads (21,532 travel lane miles) and 4,858 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 3.66 was achieved for fiscal year 2016.

The State manages its bridges using the Arizona Bridge Information and Storage System. To comply with federal standards, the State is expected to maintain its bridges to a condition where not more than 10.0% are classified as poor. The State’s most recent assessment indicated that 2.9% of the bridges were so classified for fiscal year 2016.

The State's most notable and largest highway construction project started during fiscal year 2016 was for the design, construction, and 30-year maintenance of the Loop 202 South Mountain Freeway. The project is a 22 mile, 8 lane freeway that will complete the Loop 202 and Loop 101 freeway system. The contract was entered into on February 26, 2016 for \$1.1 billion. Right-of-way cost estimates, not contractually committed, brings the total project cost estimate to \$1.8 billion, not including financing costs. The project has incurred year-to-date expenditures of \$314.3 million.

More detailed information regarding capital assets is on pages 94 and 95.

Long-term debt:

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

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

- The Arizona Department of Administration (ADOA) and the School Facilities Board (SFB) issued refunding certificates of participation totaling \$427.5 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- The Universities issued revenue bonds for \$360.0 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.

State of Arizona-Primary Government
Outstanding Major Long-Term Debt as of June 30, 2016
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenue bonds	\$ 2,899,875	\$ 3,141,190	\$ 2,701,665	\$ 2,675,430	\$ 5,601,540	\$ 5,816,620
Grant anticipation notes	147,320	194,670	-	-	147,320	194,670
Certificates of participation	1,891,460	2,030,805	600,556	637,986	2,492,016	2,668,791
Capital leases	334,909	408,784	141,117	168,960	476,026	577,744
Total	<u>\$ 5,273,564</u>	<u>\$ 5,775,449</u>	<u>\$ 3,443,338</u>	<u>\$ 3,482,376</u>	<u>\$ 8,716,902</u>	<u>\$ 9,257,825</u>

More detailed information regarding long-term debt begins on page 111.

ECONOMIC CONDITION AND OUTLOOK

The Office of Economic Opportunity within the Department of Administration is forecasting the State to gain a projected 138,553 jobs, representing annual growth rate of 2.4%, over the two-year projected employment period of 2016 (quarter 3) to 2018 (quarter 2).

The State's fiscal year 2017 General Fund budget reflects projected growth in base revenues of 4.0%. The net revenues are projected to remain stable at \$9.7 billion in fiscal year 2016 to fiscal year 2017. General Fund spending is projected to increase from \$9.5 billion in fiscal year 2016 to \$9.6 billion in fiscal year 2017. The budget includes increased spending for K-12 education formula changes, increases for University funding, and increased spending for ADOT projects. The General Fund fiscal year 2017 cash balance is projected to be a \$66 million surplus.

Legislative discussions on the fiscal year 2017 General Fund budget also included analyzing the impact of budget decisions on estimated fiscal year 2018 and 2019 spending.

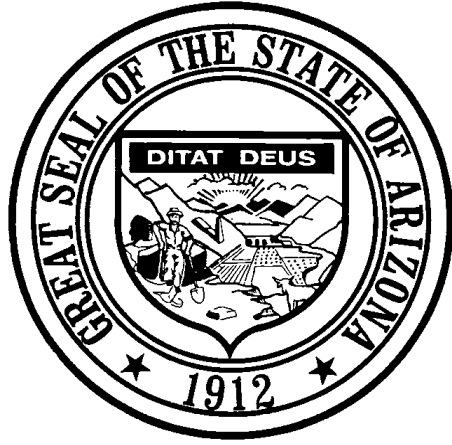
The fiscal year 2018 General Fund budget is forecasted to have revenues of \$9.8 billion and expenditures of \$9.6 billion, with a \$168 million surplus. After accounting for legislation enacted separately from the budget and technical adjustments, fiscal year 2018 revenues are projected to be \$9.8 billion compared to the same spending of \$9.6 billion. The fiscal year 2018 surplus is estimated to be \$145 million, including the \$66 million fiscal year 2017 ending balance. The structural surplus for fiscal year 2018 is estimated to be \$103 million. The fiscal year 2018 spending includes statutory formula caseload growth and removal of fiscal year 2017 spending categorized as one-time in the fiscal year 2017 budget process. Fiscal year 2017 ongoing revenues are primarily based on a 4-sector consensus base growth rate of 4.6%, but also incorporate separately enacted tax law changes. It also includes \$23 million in one-time fiscal year 2018 spending to complete School Facilities Board school construction projects started in fiscal year 2017.

The fiscal year 2019 General Fund budget is forecasted to have revenues of \$10.3 billion and expenditures of \$9.8 billion, with a \$467 million surplus. After accounting for legislation enacted separately from the budget and technical adjustments, fiscal year 2019 revenues are projected to be \$10.2 billion compared to the same spending of \$9.8 billion. The fiscal year 2019 budget is estimated to have a \$418 million surplus, including the \$145 million fiscal year 2018 ending balance. The structural surplus for fiscal year 2019 is also estimated to be \$272 million. The fiscal year 2019 spending includes statutory formula caseload growth and removal of one-time fiscal year 2018 spending. Fiscal year 2019 ongoing revenues reflect the 4-sector consensus base growth rate of 4.6%, further adjusted for previously enacted tax law changes.

CONTACTING THE STATE COMPTROLLER'S OFFICE

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

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



BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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STATE OF ARIZONA
STATEMENT OF NET POSITION
 JUNE 30, 2016
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
ASSETS				
Current Assets:				
Cash	\$ 3,566	\$ 302,979	\$ 306,545	\$ 27,956
Cash with U.S. Treasury	-	332,677	332,677	-
Cash and pooled investments with State Treasurer	3,382,211	206,492	3,588,703	355,901
Restricted cash and pooled investments with State Treasurer	383,442	59,293	442,735	-
Cash held by trustee	-	-	-	1,227
Collateral investment pool	422,933	28,135	451,068	-
Short-term investments	-	415,896	415,896	-
Restricted investments held by trustee	-	-	-	5,417
Receivables, net of allowances:				
Taxes	512,739	95,957	608,696	3,968
Interest	170,199	2,466	172,665	8,276
Loans and notes	243,020	2,913	245,933	2,529
Other	271,448	204,805	476,253	12,910
Internal balances	(61,599)	61,599	-	-
Due from U.S. Government	708,590	75,412	784,002	-
Due from local governments	130,055	-	130,055	-
Due from others	132,993	-	132,993	-
Inventories, at cost	18,971	18,725	37,696	-
Other current assets	14,710	15,240	29,950	1,412
Total Current Assets	<u>6,333,278</u>	<u>1,822,589</u>	<u>8,155,867</u>	<u>419,596</u>
Noncurrent Assets:				
Restricted assets:				
Cash	3	5,470	5,473	-
Cash and pooled investments with State Treasurer	1,104,416	-	1,104,416	11,965
Cash held by trustee	30,423	268,138	298,561	13,952
Investments	3,134	-	3,134	-
Investments held by trustee	-	381,595	381,595	7,766
Receivables, net of allowances:				
Loans and notes	31,282	31,410	62,692	940,205
Securities held in escheat	54,555	-	54,555	-
Investments	-	1,520,086	1,520,086	99,368
Endowment investments	5,102,961	412,803	5,515,764	-
Other noncurrent assets	-	31,103	31,103	613
Capital assets:				
Infrastructure, land, and other non-depreciable Buildings, equipment, and other depreciable, net of accumulated depreciation	20,965,325	690,054	21,655,379	8,530
	<u>2,006,362</u>	<u>4,384,816</u>	<u>6,391,178</u>	<u>30,463</u>
Total Noncurrent Assets	<u>29,298,461</u>	<u>7,725,475</u>	<u>37,023,936</u>	<u>1,112,862</u>
Total Assets	<u>35,631,739</u>	<u>9,548,064</u>	<u>45,179,803</u>	<u>1,532,458</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	593,155	178,494	771,649	286
Loss on debt refundings	118,589	88,741	207,330	57,033
Interest rate swap	-	23,206	23,206	-
Future benefits and advances	-	-	-	21,584
Total Deferred Outflows of Resources	<u>711,744</u>	<u>290,441</u>	<u>1,002,185</u>	<u>78,903</u>

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

(Continued)

STATE OF ARIZONA
STATEMENT OF NET POSITION
 JUNE 30, 2016
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 656,105	\$ 198,967	\$ 855,072	\$ 8,566
Payable for securities purchased	-	1,483	1,483	-
Accrued liabilities	918,927	95,382	1,014,309	8,106
Obligations under securities loan agreements	422,933	28,135	451,068	-
Tax refunds payable	18,572	327	18,899	-
Due to U.S. Government	123,109	35	123,144	-
Due to local governments	1,425,033	-	1,425,033	-
Due to others	478,230	87,146	565,376	-
Due to component units	-	3,500	3,500	-
Unearned revenue	103,330	172,468	275,798	-
Current portion of accrued insurance losses	67,771	28,200	95,971	-
Current portion of long-term debt	531,938	248,609	780,547	50,250
Current portion of other long-term liabilities	180,924	20,131	201,055	88
Total Current Liabilities	<u>4,926,872</u>	<u>884,383</u>	<u>5,811,255</u>	<u>67,010</u>
Noncurrent Liabilities:				
Unearned revenue	86,459	-	86,459	2,343
Accrued insurance losses	372,809	352,340	725,149	-
Funds held for others	-	3,586	3,586	-
Net OPEB obligation	89,083	57,296	146,379	-
Net pension liability	3,836,769	1,397,355	5,234,124	2,865
Long-term debt	5,256,330	3,465,317	8,721,647	810,631
Derivative instrument - interest rate swap	-	23,206	23,206	-
Other long-term liabilities	166,491	99,675	266,166	-
Total Noncurrent Liabilities	<u>9,807,941</u>	<u>5,398,775</u>	<u>15,206,716</u>	<u>815,839</u>
Total Liabilities	<u>14,734,813</u>	<u>6,283,158</u>	<u>21,017,971</u>	<u>882,849</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	235,358	117,114	352,472	367
Resources received before time requirements met	-	209,864	209,864	-
Gain on debt refundings	-	249	249	-
Total Deferred Inflows of Resources	<u>235,358</u>	<u>327,227</u>	<u>562,585</u>	<u>367</u>
NET POSITION				
Net investment in capital assets	19,722,730	1,761,694	21,484,424	34,592
Restricted for:				
General government	40,231	-	40,231	-
Health and welfare	75,058	-	75,058	-
Inspection and regulation	5,388	-	5,388	-
Education	455,262	-	455,262	-
Protection and safety	23,175	-	23,175	-
Natural resources	10,980	-	10,980	-
Unemployment Compensation	-	391,445	391,445	-
Capital projects	728,390	8,509	736,899	-
Debt service	-	30,887	30,887	97,292
Permanent funds and University funds:				
Expendable	137,660	349,287	486,947	-
Nonexpendable	5,362,418	228,493	5,590,911	-
Loans and other financial assistance:				
Expendable	17,709	59,293	77,002	572,146
Other	-	123,691	123,691	13,058
Unrestricted (deficit)	<u>(5,205,689)</u>	<u>274,821</u>	<u>(4,930,868)</u>	<u>11,057</u>
Total Net Position	<u>\$ 21,373,312</u>	<u>\$ 3,228,120</u>	<u>\$ 24,601,432</u>	<u>\$ 728,145</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, 2016
(Expressed in Thousands)

ASSETS

Cash and cash equivalent investments	\$	90,737
Receivables:		
Pledges receivable		209,445
Other receivables		51,069
Total receivables		<u>260,514</u>
Investments:		
Investments in securities		1,666,652
Other investments		74,616
Total investments		<u>1,741,268</u>
Net direct financing leases		69,317
Property and equipment, net of accumulated depreciation		310,847
Other assets		<u>61,267</u>
Total Assets		<u>2,533,950</u>

LIABILITIES

Accounts payable and accrued liabilities		50,815
Liability under endowment trust agreements		342,684
Long-term debt		504,099
Deferred revenue		27,820
Other liabilities		<u>47,795</u>
Total Liabilities		<u>973,213</u>

NET ASSETS

Permanently restricted		996,251
Temporarily restricted		513,189
Unrestricted		<u>51,297</u>
Total Net Assets	\$	<u>1,560,737</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, 2016
 (Expressed in Thousands)

	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS				
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 807,320	\$ 196,179	\$ 139,719	\$ -
Health and welfare	15,152,650	423,690	11,826,276	4,975
Inspection and regulation	168,719	166,075	21,613	-
Education	6,136,303	69,021	1,312,699	-
Protection and safety	1,585,620	120,146	50,387	-
Transportation	858,958	143,697	134,446	856,434
Natural resources	208,563	72,261	47,107	9,235
Intergovernmental revenue sharing	3,176,183	-	-	-
Interest on long-term debt	210,326	-	-	-
Total Governmental Activities	<u>28,304,642</u>	<u>1,191,069</u>	<u>13,532,247</u>	<u>870,644</u>
Business-type Activities:				
Universities	4,637,567	2,519,048	1,448,402	11,911
Other	1,014,941	1,468,139	4,160	-
Total Business-type Activities	<u>5,652,508</u>	<u>3,987,187</u>	<u>1,452,562</u>	<u>11,911</u>
Total Primary Government	<u>\$ 33,957,150</u>	<u>\$ 5,178,256</u>	<u>\$ 14,984,809</u>	<u>\$ 882,555</u>
COMPONENT UNITS:				
Water Infrastructure Finance Authority	\$ 34,859	\$ 29,044	\$ 26,795	
Other Component Units	164,544	29,744	2,345	
Total Component Units	<u>\$ 199,403</u>	<u>\$ 58,788</u>	<u>\$ 29,140</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 Position
 Net Position - Beginning, as restated
 Net Position - Ending

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (471,422)		\$ (471,422)	
(2,897,709)		(2,897,709)	
18,969		18,969	
(4,754,583)		(4,754,583)	
(1,415,087)		(1,415,087)	
275,619		275,619	
(79,960)		(79,960)	
(3,176,183)		(3,176,183)	
(210,326)		(210,326)	
<u>(12,710,682)</u>		<u>(12,710,682)</u>	
	\$ (658,206)	(658,206)	
	457,358	457,358	
	<u>(200,848)</u>	<u>(200,848)</u>	
<u>(12,710,682)</u>	<u>(200,848)</u>	<u>(12,911,530)</u>	
			\$ 20,980
			<u>(132,455)</u>
			<u>(111,475)</u>
6,455,837	69,927	6,525,764	12,443
4,511,674	-	4,511,674	-
318,902	-	318,902	-
51,735	-	51,735	-
1,823,998	-	1,823,998	-
616,580	-	616,580	3,892
58,250	68,795	127,045	7,789
115,097	548	115,645	50
75,042	-	75,042	-
-	-	-	32,462
247,462	65,143	312,605	4,384
-	5,472	5,472	-
<u>(465,840)</u>	<u>465,840</u>	<u>-</u>	<u>-</u>
<u>13,808,737</u>	<u>675,725</u>	<u>14,484,462</u>	<u>61,020</u>
1,098,055	474,877	1,572,932	(50,455)
<u>20,275,257</u>	<u>2,753,243</u>	<u>23,028,500</u>	<u>778,600</u>
<u>\$ 21,373,312</u>	<u>\$ 3,228,120</u>	<u>\$ 24,601,432</u>	<u>\$ 728,145</u>

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions	\$ 29,878	\$ 186,728	\$ 40,680	\$ 257,286
Rental revenue	50,230	-	-	50,230
Sales and services	61,778	90	-	61,868
Net investment income	(8,164)	(11,658)	(7,843)	(27,665)
Grants and aid	17,344	-	-	17,344
Other revenues	31,244	4,205	(96)	35,353
Net assets released from restrictions	189,233	(166,687)	(22,546)	-
Total Revenues	371,543	12,678	10,195	394,416
EXPENSES				
Program services:				
Payments to Universities	195,007	-	-	195,007
Leasing related expenses	9,524	-	-	9,524
Payments on behalf of Universities	17,659	-	-	17,659
Other program services	8,320	-	-	8,320
Management and general expenses	103,735	-	-	103,735
Fundraising expenses	13,167	-	-	13,167
Interest	20,909	-	-	20,909
Depreciation and amortization	17,546	-	-	17,546
Other expenses	18,136	-	-	18,136
Total Expenses	404,003	-	-	404,003
Increase (decrease) in Net Assets	(32,460)	12,678	10,195	(9,587)
Net Assets - Beginning	83,546	501,532	985,246	1,570,324
Transfers	211	(1,021)	810	-
Net Assets - Ending	\$ 51,297	\$ 513,189	\$ 996,251	\$ 1,560,737

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

STATE OF ARIZONA
BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2016
 (Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS					
Cash	\$ 1,765	\$ -	\$ 28	\$ 1,773	\$ 3,566
Cash and pooled investments with State Treasurer	1,766,144	231,615	94,100	855,238	2,947,097
Collateral investment pool	42,128	17,024	358,311	5,470	422,933
Receivables, net of allowances:					
Taxes	357,456	74,157	-	81,126	512,739
Interest	-	-	170,199	-	170,199
Loans and notes	26,665	3,472	244,165	-	274,302
Other	191,869	14,384	4,111	27,764	238,128
Due from U.S. Government	622,262	65,096	-	16,040	703,398
Due from local governments	130,055	-	-	-	130,055
Due from others	132,993	-	-	-	132,993
Due from other Funds	29,988	22,584	-	75,027	127,599
Inventories, at cost	10,232	6,179	-	-	16,411
Restricted assets:					
Cash	3	-	-	-	3
Cash and pooled investments with State Treasurer	7,125	919,789	-	560,944	1,487,858
Cash held by trustee	17	547	-	29,859	30,423
Investments	3,134	-	-	-	3,134
Securities held in escheat	54,555	-	-	-	54,555
Endowment investments	-	-	5,102,961	-	5,102,961
Total Assets	<u>\$ 3,376,391</u>	<u>\$ 1,354,847</u>	<u>\$ 5,973,875</u>	<u>\$ 1,653,241</u>	<u>\$ 12,358,354</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ 359,493	\$ 104,859	\$ 7,288	\$ 40,224	\$ 511,864
Accrued liabilities	578,239	10,150	188	53,193	641,770
Obligations under securities loan agreements	42,128	17,024	358,311	5,470	422,933
Tax refunds payable	2,994	15,575	-	3	18,572
Due to U.S. Government	123,109	-	-	-	123,109
Due to local governments	1,136,171	147,992	-	140,870	1,425,033
Due to others	465,873	-	1	12,356	478,230
Due to other Funds	83,369	12,457	-	11,560	107,386
Unearned revenue	78,632	1,787	108,009	1,361	189,789
Total Liabilities	<u>2,870,008</u>	<u>309,844</u>	<u>473,797</u>	<u>265,037</u>	<u>3,918,686</u>
Deferred Inflows of Resources:					
Unavailable revenue	357,300	561	403,150	508	761,519
Fund Balances:					
Nonspendable	9,669	6,179	5,118,253	-	5,134,101
Restricted	91,833	746,814	-	741,196	1,579,843
Committed	126,484	291,449	-	646,500	1,064,433
Unassigned	(78,903)	-	(21,325)	-	(100,228)
Total Fund Balances	<u>149,083</u>	<u>1,044,442</u>	<u>5,096,928</u>	<u>1,387,696</u>	<u>7,678,149</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,376,391</u>	<u>\$ 1,354,847</u>	<u>\$ 5,973,875</u>	<u>\$ 1,653,241</u>	<u>\$ 12,358,354</u>

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

STATE OF ARIZONA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 JUNE 30, 2016
 (Expressed in Thousands)

Total fund balances - governmental funds \$ 7,678,149

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 22,889,252

Certain revenues collected after year-end are not available soon enough to pay for current period expenditures and, therefore, are reported as unavailable deferred inflows of resources in the governmental funds. 761,519

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. (232,543)

The allocation of the internal service funds accumulated net gain results in an amount due to business-type activities, which is not reported in the governmental funds. (83,295)

Deferred outflows of resources are applicable to future reporting periods and, therefore, are not reported in the governmental funds. These amounts consist of:

Loss on refunding of debt	118,589	
Related to pensions	<u>585,991</u>	704,580

Certain liabilities and related accrued interest are not due and payable from current financial resources and, therefore, are not reported in the governmental funds. These amounts consist of:

Net OPEB	(87,676)	
Net pension	(3,779,440)	
Revenue bonds	(2,899,875)	
Grant anticipation notes	(147,320)	
Certificates of participation	(1,891,460)	
Accrued interest on certificates of participation	(22,526)	
Capital leases	(330,247)	
Installment purchase contracts	(176)	
Notes payable	(22,179)	
Premium on debt	(492,349)	
Compensated absences	(162,435)	
Pollution remediation obligations	<u>(25,160)</u>	(9,860,843)

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. (253,062)

Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental funds. (230,445)

Net position of governmental activities \$ 21,373,312

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, 2016
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
REVENUES					
Taxes:					
Sales	\$ 5,609,439	\$ 262,971	\$ -	\$ 578,557	\$ 6,450,967
Income	4,513,193	-	-	26	4,513,219
Tobacco	65,580	-	-	253,322	318,902
Property	40,115	9,620	-	2,000	51,735
Motor vehicle and fuel	8,213	1,661,394	-	154,391	1,823,998
Other	537,215	-	-	79,365	616,580
Intergovernmental	13,079,163	990,880	-	96,344	14,166,387
Licenses, fees, and permits	117,163	122,356	3,796	298,749	542,064
Hospital and nursing facility assessments	-	-	-	299,608	299,608
Earnings on investments	30,267	11,486	65,926	67,765	175,444
Sales and charges for services	88,975	21,599	51,402	26,691	188,667
Fines, forfeitures, and penalties	22,918	-	-	136,729	159,647
Gaming	6,408	-	-	85,340	91,748
Tobacco settlement	98,907	-	-	-	98,907
Proceeds from sale of trust land	-	-	91,022	-	91,022
Other	240,677	6,977	294	16,526	264,474
Total Revenues	<u>24,458,233</u>	<u>3,087,283</u>	<u>212,440</u>	<u>2,095,413</u>	<u>29,853,369</u>
EXPENDITURES					
Current:					
General government	591,999	-	-	122,314	714,313
Health and welfare	14,529,077	-	6,622	538,755	15,074,454
Inspection and regulation	43,802	-	-	121,207	165,009
Education	5,176,055	-	222,529	734,167	6,132,751
Protection and safety	1,165,609	-	4,838	286,204	1,456,651
Transportation	-	799,702	-	16,109	815,811
Natural resources	62,545	-	1,765	125,304	189,614
Intergovernmental revenue sharing	1,855,234	1,320,941	-	8	3,176,183
Debt service:					
Principal	145,717	11,178	-	360,494	517,389
Interest and other fiscal charges	32,801	647	-	216,256	249,704
Capital outlay	108,971	637,970	68	66,993	814,002
Total Expenditures	<u>23,711,810</u>	<u>2,770,438</u>	<u>235,822</u>	<u>2,587,811</u>	<u>29,305,881</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>746,423</u>	<u>316,845</u>	<u>(23,382)</u>	<u>(492,398)</u>	<u>547,488</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	263,965	737	-	650,115	914,817
Transfers out	(888,098)	(304,311)	(24,944)	(150,626)	(1,367,979)
Proceeds from sale of capital assets	1,143	60	-	-	1,203
Capital lease and installment purchase contracts	-	-	-	3,579	3,579
Refunding certificates of participation issued	263,545	-	-	163,995	427,540
Payment to refunded certificates of participation escrow agent	(296,245)	-	-	(126,596)	(422,841)
Payment to refunded bond escrow agent	-	-	-	(62,630)	(62,630)
Premium on debt issued	33,498	-	-	25,435	58,933
Total Other Financing Sources (Uses)	<u>(622,192)</u>	<u>(303,514)</u>	<u>(24,944)</u>	<u>503,272</u>	<u>(447,378)</u>
Net Change in Fund Balances	<u>124,231</u>	<u>13,331</u>	<u>(48,326)</u>	<u>10,874</u>	<u>100,110</u>
Fund Balances - Beginning, as restated	24,852	1,031,111	5,145,254	1,376,822	7,578,039
Fund Balances - Ending	<u>\$ 149,083</u>	<u>\$ 1,044,442</u>	<u>\$ 5,096,928</u>	<u>\$ 1,387,696</u>	<u>\$ 7,678,149</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, 2016
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 100,110

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	814,002	
Infrastructure adjustment	(16,346)	
Donated capital assets	79,300	
Depreciation expense	<u>(141,629)</u>	735,327

The net expense of the internal service funds allocable to governmental activities is included in the Statement of Activities. 6,721

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

Sales taxes	4,870	
Income taxes	(1,545)	
Operating grants	2,365	
Other revenue	<u>655</u>	6,345

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 2016, mortgage payments received exceeded gains resulting from current year land sales. In addition, accrued interest on land sales contracts is 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	(15,980)	
Accrued interest on land sales' contracts	<u>(55,700)</u>	(71,680)

Pension contributions are reported as expenditures in the governmental funds in the fiscal year contributed. However, current year contributions are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the State's current fiscal year-end financial statements. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

Pension contributions made during fiscal year 2016	266,399	
Pension expense and pension-related grant expense	<u>(385,740)</u>	(119,341)

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, 2016
 (Expressed in Thousands)

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	(24,245)	
Compensated absences	5,814	
Pollution remediation obligations	(5,447)	
Interest on long-term obligations	4,466	
OPEB obligations	(69,867)	
Other expenses	<u>111</u>	(89,168)

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

Refunding certificates of participation issued	(427,540)	
Premium on debt issued	<u>(58,933)</u>	(486,473)

Repayment of long-term debt is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities and deferred outflows of resources in the Statement of Net Position. Governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the Statement of Activities. In the current year, these amounts consist of:

Debt service principal	517,389	
Payment to refunded certificates of participation escrow agent	422,841	
Payment to refunded bond escrow agent	62,630	
Debt premium/discount amortization	50,157	
Amortization of deferred losses on refundings	<u>(15,245)</u>	1,037,772

Some capital asset additions were financed through capital leases and installment purchase contracts. Such financing arrangements are reported as other financing sources in the governmental funds; however, these amounts are reported as liabilities in the Statement of Net Position. In addition, certain internal service fund vehicle purchases were financed by leases executed through governmental funds. The vehicles financed through capital leases and transferred to internal service funds are recognized as contributed capital and are, therefore, included in internal service funds' net expense. However, for government-wide reporting, the effect of this contributed capital is eliminated.

Governmental funds capital leases and installment purchase contracts	(3,579)	
Internal service funds vehicle purchases financed by governmental fund leases	<u>(17,979)</u>	(21,558)

Change in net position of governmental activities

\$ 1,098,055

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

STATE OF ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
ASSETS				
Current Assets:				
Cash	\$ 274,703	\$ 28,276	\$ 302,979	\$ -
Cash with U.S. Treasury	-	332,677	332,677	-
Cash and pooled investments with State Treasurer	88,968	117,524	206,492	435,114
Restricted cash and pooled investments with State Treasurer	-	59,293	59,293	-
Collateral investment pool	-	28,135	28,135	-
Short-term investments	213,428	202,468	415,896	-
Receivables, net of allowances:				
Taxes	-	95,957	95,957	-
Interest	834	1,632	2,466	-
Loans and notes	2,913	-	2,913	-
Other	169,595	35,210	204,805	33,320
Due from U.S. Government	75,339	73	75,412	5,192
Due from other Funds	38,648	175	38,823	1,516
Inventories, at cost	8,096	10,629	18,725	2,560
Other current assets	14,960	280	15,240	14,710
Total Current Assets	<u>887,484</u>	<u>912,329</u>	<u>1,799,813</u>	<u>492,412</u>
Noncurrent Assets:				
Restricted assets:				
Cash	5,470	-	5,470	-
Cash held by trustee	268,138	-	268,138	-
Investments held by trustee	381,595	-	381,595	-
Receivables, net of allowances:				
Loans and notes	31,410	-	31,410	-
Investments	1,187,601	332,485	1,520,086	-
Endowment investments	412,803	-	412,803	-
Other noncurrent assets	21,528	9,575	31,103	-
Capital assets:				
Land and other non-depreciable	683,597	6,457	690,054	-
Buildings, equipment, and other depreciable, net of accumulated depreciation	4,361,477	23,339	4,384,816	82,435
Total Noncurrent Assets	<u>7,353,619</u>	<u>371,856</u>	<u>7,725,475</u>	<u>82,435</u>
Total Assets	<u>8,241,103</u>	<u>1,284,185</u>	<u>9,525,288</u>	<u>574,847</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	173,097	5,397	178,494	7,164
Loss on debt refundings	88,741	-	88,741	-
Interest rate swap	23,206	-	23,206	-
Total Deferred Outflows of Resources	<u>285,044</u>	<u>5,397</u>	<u>290,441</u>	<u>7,164</u>

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

(Continued)

STATE OF ARIZONA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 187,091	\$ 11,876	\$ 198,967	\$ 144,241
Payable for securities purchased	-	1,483	1,483	-
Accrued liabilities	59,254	36,128	95,382	1,569
Obligations under securities loan agreements	-	28,135	28,135	-
Tax refunds payable	-	327	327	-
Due to U.S. Government	-	35	35	-
Due to others	32,940	54,206	87,146	-
Due to component units	-	3,500	3,500	-
Due to other Funds	-	60,519	60,519	33
Unearned revenue	172,318	150	172,468	-
Current portion of accrued insurance losses	-	28,200	28,200	67,771
Current portion of long-term debt	248,609	-	248,609	1,366
Current portion of other long-term liabilities	18,528	1,603	20,131	13,898
Total Current Liabilities	<u>718,740</u>	<u>226,162</u>	<u>944,902</u>	<u>228,878</u>
Noncurrent Liabilities:				
Accrued insurance losses	-	352,340	352,340	372,809
Funds held for others	3,586	-	3,586	-
Net OPEB obligation	55,832	1,464	57,296	1,407
Net pension liability	1,354,646	42,709	1,397,355	57,329
Long-term debt	3,465,317	-	3,465,317	3,296
Derivative instrument - interest rate swap	23,206	-	23,206	-
Other long-term liabilities	99,569	106	99,675	145,922
Total Noncurrent Liabilities	<u>5,002,156</u>	<u>396,619</u>	<u>5,398,775</u>	<u>580,763</u>
Total Liabilities	<u>5,720,896</u>	<u>622,781</u>	<u>6,343,677</u>	<u>809,641</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	113,210	3,904	117,114	4,913
Resources received before time requirements met	209,864	-	209,864	-
Gain on debt refundings	249	-	249	-
Total Deferred Inflows of Resources	<u>323,323</u>	<u>3,904</u>	<u>327,227</u>	<u>4,913</u>
NET POSITION				
Net investment in capital assets	1,731,898	29,796	1,761,694	81,838
Restricted for:				
Unemployment Compensation	-	391,445	391,445	-
Capital projects	8,509	-	8,509	-
Debt service	30,887	-	30,887	-
Universities fund:				
Expendable	349,287	-	349,287	-
Nonexpendable	228,493	-	228,493	-
Loans and other financial assistance:				
Expendable	-	59,293	59,293	-
Other	-	123,691	123,691	-
Unrestricted (deficit)	132,854	58,672	191,526	(314,381)
Total Net Position	<u>\$ 2,481,928</u>	<u>\$ 662,897</u>	<u>\$ 3,144,825</u>	<u>\$ (232,543)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>83,295</u>	
Net position of business-type activities			<u>\$ 3,228,120</u>	

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

STATE OF ARIZONA
**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION**
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
OPERATING REVENUES				
Sales and charges for services:				
Student tuition and fees, net of scholarship allowances of \$594,602	\$ 1,983,261	\$ -	\$ 1,983,261	\$ -
Auxiliary enterprises, net of scholarship allowances of \$29,646	413,330	-	413,330	-
Educational department	122,457	-	122,457	-
Other	-	976,452	976,452	1,066,375
Unemployment assessments	-	482,955	482,955	-
Workers' compensation assessments	-	3,928	3,928	-
Intergovernmental	528,968	729	529,697	-
Nongovernmental grants and contracts	292,675	-	292,675	-
Fines, forfeitures, and penalties	-	2,056	2,056	-
Settlement income	-	2,748	2,748	-
Other	50,136	353	50,489	2,497
Total Operating Revenues	<u>3,390,827</u>	<u>1,469,221</u>	<u>4,860,048</u>	<u>1,068,872</u>
OPERATING EXPENSES				
Cost of sales and benefits	1,174,616	908,286	2,082,902	897,210
Scholarships and fellowships	255,753	-	255,753	-
Personal services	2,778,038	42,265	2,820,303	47,583
Contractual services	-	25,676	25,676	33,064
Depreciation and amortization	279,800	8,675	288,475	22,987
Insurance	-	540	540	49,434
Other	-	10,987	10,987	11,562
Total Operating Expenses	<u>4,488,207</u>	<u>996,429</u>	<u>5,484,636</u>	<u>1,061,840</u>
Operating Income (Loss)	<u>(1,097,380)</u>	<u>472,792</u>	<u>(624,588)</u>	<u>7,032</u>
NON-OPERATING REVENUES (EXPENSES)				
Share of State sales tax revenues	69,927	-	69,927	-
Intergovernmental	314,915	-	314,915	-
Gifts and donations	336,897	-	336,897	-
Gain (loss) on sale of capital assets	(1,357)	(27)	(1,384)	970
Investment income	60,555	11,671	72,226	16
Endowment earnings on investments	(25,053)	-	(25,053)	-
Other non-operating revenue	13,781	2,257	16,038	294
Distributions	-	(15,002)	(15,002)	-
Interest expense	(136,907)	-	(136,907)	(1)
Other non-operating expense	(16,039)	(3,510)	(19,549)	(4,376)
Total Non-Operating Revenues (Expenses)	<u>616,719</u>	<u>(4,611)</u>	<u>612,108</u>	<u>(3,097)</u>
Income (Loss) Before Contributions, and Transfers	(480,661)	468,181	(12,480)	3,935
Capital grants and contributions	11,911	548	12,459	19,050
Contributions to permanent endowments	5,472	-	5,472	-
Transfers in	682,432	-	682,432	1,962
Transfers out	-	(216,592)	(216,592)	(14,640)
Change in Net Position	219,154	252,137	471,291	10,307
Total Net Position - Beginning, as restated	<u>2,262,774</u>	<u>410,760</u>	<u>2,673,534</u>	<u>(242,850)</u>
Total Net Position - Ending	<u>\$ 2,481,928</u>	<u>\$ 662,897</u>	<u>\$ 3,144,825</u>	<u>\$ (232,543)</u>
Change in net position of enterprise funds			\$ 471,291	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>3,586</u>	
Change in net position of business-type activities			<u>\$ 474,877</u>	

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

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STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 490,867	\$ 490,867	\$ -
Receipts from assessments	-	489,231	489,231	-
Receipts from student tuition and fees	1,974,552	-	1,974,552	-
Receipts from sales and services of auxiliary enterprises	418,251	-	418,251	-
Receipts from sales and services of educational departments	119,846	-	119,846	-
Receipts from interfund services / premiums	-	-	-	1,044,578
Receipts from grants and contracts	835,197	729	835,926	-
Receipts from student loans collected	7,294	-	7,294	-
Receipts from settlement income	-	2,748	2,748	-
Payments to suppliers, prize winners, claimants, or insurance companies	(1,198,203)	(527,238)	(1,725,441)	(986,014)
Payments to employees	(2,682,298)	(56,344)	(2,738,642)	(49,231)
Payments to retirees	-	-	-	(13,244)
Payments for scholarships and fellowships	(260,938)	-	(260,938)	-
Payments for student loans issued	(6,763)	-	(6,763)	-
Other receipts	39,316	6,121	45,437	2,168
Other payments	-	-	-	(4,376)
Net Cash Provided (Used) by Operating Activities	(753,746)	406,114	(347,632)	(6,119)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Receipts from custodial funds	254,232	-	254,232	-
Receipts from share of State sales tax	67,516	-	67,516	-
Receipts from grants and contributions	1,731,567	-	1,731,567	-
Transfers from other Funds	738,370	-	738,370	1,962
Custodial funds disbursed	(249,903)	-	(249,903)	-
Grants and contributions disbursed	(989,323)	-	(989,323)	-
Distributions	-	(14,944)	(14,944)	-
Transfers to other Funds	-	(180,511)	(180,511)	(14,640)
Other receipts	12,593	-	12,593	-
Net Cash Provided (Used) by Non-capital Financing Activities	1,565,052	(195,455)	1,369,597	(12,678)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	446	2	448	2,276
Proceeds from capital debt, installment purchase contracts, and capital leases	335,789	-	335,789	-
Receipts from federal subsidy	17,798	-	17,798	-
Receipts from capital grants and contributions	26,854	548	27,402	-
Receipts from insurance recoveries	-	-	-	262
Transfers from other Funds	34,289	-	34,289	-
Acquisition and construction of capital assets	(520,203)	(2,662)	(522,865)	(1,989)
Interest paid on capital debt, installment purchase contracts, and capital leases	(162,225)	-	(162,225)	(187)
Principal paid on capital debt, installment purchase contracts, and capital leases	(324,405)	-	(324,405)	(1,312)
Net Cash (Used) by Capital and Related Financing Activities	(591,657)	(2,112)	(593,769)	(950)

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

(Continued)

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	518,484	661,312	1,179,796	-
Interest and dividends from investments	38,643	13,253	51,896	15
Change in cash collateral received from securities lending transactions	-	1,896	1,896	-
Purchase of investments	(724,632)	(660,395)	(1,385,027)	-
Net Cash Provided (Used) by Investing Activities	<u>(167,505)</u>	<u>16,066</u>	<u>(151,439)</u>	<u>15</u>
Net Increase (Decrease) in Cash and Cash Equivalents	52,144	224,613	276,757	(19,732)
Cash and Cash Equivalents - Beginning, as restated	585,135	341,292	926,427	454,846
Cash and Cash Equivalents - Ending	<u>\$ 637,279</u>	<u>\$ 565,905</u>	<u>\$ 1,203,184</u>	<u>\$ 435,114</u>

**RECONCILIATION OF OPERATING INCOME
(LOSS) TO NET CASH PROVIDED (USED) BY
OPERATING ACTIVITIES:**

Operating income (loss)	\$ (1,097,380)	\$ 472,792	\$ (624,588)	\$ 7,032
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	279,800	8,675	288,475	22,987
Miscellaneous income (expense)	(8,886)	1,931	(6,955)	(4,157)
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) in receivables, net of allowances	(293)	(1,537)	(1,830)	(25,978)
(Increase) in due from U.S. Government	-	-	-	(5,192)
(Increase) decrease in due from other Funds	-	(15)	(15)	8,461
Decrease in inventories, at cost	477	892	1,369	257
(Increase) decrease in other assets	(772)	195	(577)	1,306
Decrease in deferred pension outflows of resources	12,080	1,908	13,988	1,799
Increase (decrease) in accounts payable	(9,838)	1,081	(8,757)	16,458
Increase (decrease) in accrued liabilities	10,202	11,114	21,316	(532)
(Decrease) in due to U.S. Government	-	(51)	(51)	-
(Decrease) in due to other Funds	-	(55)	(55)	(7,767)
(Decrease) in due to others	-	(49)	(49)	-
Increase (decrease) in unearned revenue	18,709	(79)	18,630	(1)
(Decrease) in accrued insurance losses	-	(90,063)	(90,063)	(16,809)
Increase in net OPEB obligation	45,225	1,464	46,689	1,407
Increase in net pension liability	93,459	1,443	94,902	521
(Decrease) in other liabilities	-	(11)	(11)	(890)
(Decrease) in deferred pension inflows of resources	(96,529)	(3,521)	(100,050)	(5,021)
Net Cash Provided (Used) by Operating Activities	<u>\$ (753,746)</u>	<u>\$ 406,114</u>	<u>\$ (347,632)</u>	<u>\$ (6,119)</u>

**SCHEDULE OF NONCASH INVESTING, CAPITAL
AND NON-CAPITAL FINANCING ACTIVITIES**

Contribution of capital assets from other Funds	\$ -	\$ -	\$ -	\$ 19,050
Gifts and conveyances of capital assets	3,428	-	3,428	-
(Loss) on disposal of capital assets, net	(13,714)	(27)	(13,741)	-
(Decrease) in fair value of investments	(7,317)	(5,276)	(12,593)	-
(Decrease) in fair value of investments held by trustee	(10,767)	-	(10,767)	-
Amortization of bond discount	(2,545)	-	(2,545)	-
Amortization of bond premium	11,073	-	11,073	-
Refinancing long-term debt	259,762	-	259,762	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ 239,920</u>	<u>\$ (5,303)</u>	<u>\$ 234,617</u>	<u>\$ 19,050</u>

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

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

(Expressed in Thousands)

	PENSION AND OTHER		AGENCY
	EMPLOYEE BENEFIT	INVESTMENT	
	TRUST FUNDS	TRUST FUNDS	FUNDS
ASSETS			
Cash	\$ 325,159	\$ -	\$ 25,166
Cash and pooled investments with State Treasurer	-	5,823	64,791
Receivables, net of allowances:			
Accrued interest and dividends	57,573	2,506	1
Securities sold	883,247	-	-
Futures contracts receivable	27,970	-	-
Contributions	75,902	-	-
Court fees	739	-	-
Due from other Funds	13,791	-	-
Other	32,708	-	2
Total receivables	<u>1,091,930</u>	<u>2,506</u>	<u>3</u>
Investments, at fair value:			
Short-term investments	970,923	-	1,343
Fixed income securities	9,867,982	2,968,069	-
Corporate stocks	21,200,882	-	-
Global tactical asset allocation	1,760,189	-	-
Real assets	794,790	-	-
Real estate	4,167,013	-	-
Private equity	1,247,968	-	-
Private credit	872,424	-	-
Collateral investment pool	696,090	81,439	-
Other investments	1,172,530	-	-
Total investments	<u>42,750,791</u>	<u>3,049,508</u>	<u>1,343</u>
Due from others	-	-	82,032
Custodial securities in safekeeping	-	-	782,460
Other assets	-	-	1,508
Property and equipment, net of accumulated depreciation	<u>4,004</u>	<u>-</u>	<u>-</u>
Total Assets	<u>44,171,884</u>	<u>3,057,837</u>	<u>957,303</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>926</u>	<u>-</u>	<u>-</u>
LIABILITIES			
Accounts payable and other current liabilities	33,215	-	-
Payable for securities purchased	484,980	-	-
Management fee payable	-	144	-
Obligation under securities loan agreements	696,088	81,439	-
Futures contracts payable	15,432	-	-
Due to local governments	-	-	10,384
Due to others	-	-	946,919
Due to other Funds	13,791	-	-
Net pension liability	<u>6,514</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,250,020</u>	<u>81,583</u>	<u>957,303</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	<u>613</u>	<u>-</u>	<u>-</u>
NET POSITION			
Restricted for:			
Pension benefits	40,743,536	-	-
Other post-employment benefits	2,178,641	-	-
Pool participants	-	2,976,254	-
Total Net Position	<u>\$ 42,922,177</u>	<u>\$ 2,976,254</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 POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	PENSION AND OTHER	
	EMPLOYEE BENEFIT	INVESTMENT
	TRUST FUNDS	TRUST FUNDS
ADDITIONS:		
Member contributions	\$ 1,276,675	\$ -
Employer contributions	1,770,498	-
Non-employer entity contributions	22,316	-
Member purchase of service credit	36,761	-
Court fees	8,580	-
Investment income:		
Net increase (decrease) in fair value of investments	(12,182)	2,866
Interest income	135,940	16,932
Dividends	329,733	-
Other investment income	134,736	-
Securities lending income	11,380	57
Total investment income	599,607	19,855
Less investment expenses:		
Investment activity expenses	314,423	1,560
Securities lending expenses	1,551	48
Net investment income	283,633	18,247
Capital share and individual account transactions:		
Shares sold	-	4,267,961
Reinvested interest income	-	14,002
Shares redeemed	-	(4,123,356)
Net capital share and individual account transactions	-	158,607
Other additions	11,907	-
Total Additions	3,410,370	176,854
DEDUCTIONS:		
Retirement, disability, and survivor benefits	3,954,957	-
Health insurance subsidy	20,038	-
Refunds to withdrawing members, including interest	307,282	-
Administrative expense	33,424	-
Dividends to investors	-	17,394
Other deductions	3,525	-
Total Deductions	4,319,226	17,394
Change in net position restricted in trust for:		
Pension benefits	(826,415)	-
Other post-employment benefits	(82,441)	-
Pool participants	-	159,460
Net Position - Beginning	43,831,033	2,816,794
Net Position - Ending	\$ 42,922,177	\$ 2,976,254

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

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
 COMPONENT UNITS
 JUNE 30, 2016
 (Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
ASSETS			
Current Assets:			
Cash	\$ -	\$ 27,956	\$ 27,956
Cash and pooled investments with State Treasurer	287,340	68,561	355,901
Cash held by trustee	1,227	-	1,227
Restricted investments held by trustee	-	5,417	5,417
Receivables, net of allowances:			
Taxes	-	3,968	3,968
Interest	8,268	8	8,276
Loans and notes	-	2,529	2,529
Other	5,667	7,243	12,910
Other current assets	-	1,412	1,412
Total Current Assets	<u>302,502</u>	<u>117,094</u>	<u>419,596</u>
Noncurrent Assets:			
Restricted assets:			
Cash and pooled investments with State Treasurer	-	11,965	11,965
Cash held by trustee	-	13,952	13,952
Investments held by trustee	-	7,766	7,766
Loans and notes receivable, net of allowances	915,664	24,541	940,205
Investments	99,368	-	99,368
Other noncurrent assets	-	613	613
Capital assets:			
Land and other non-depreciable	-	8,530	8,530
Buildings, equipment, and other depreciable, net of accumulated depreciation	11	30,452	30,463
Total Noncurrent Assets	<u>1,015,043</u>	<u>97,819</u>	<u>1,112,862</u>
Total Assets	<u>1,317,545</u>	<u>214,913</u>	<u>1,532,458</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	214	72	286
Loss on debt refundings	49,412	7,621	57,033
Future benefits and advances	-	21,584	21,584
Total Deferred Outflows of Resources	<u>49,626</u>	<u>29,277</u>	<u>78,903</u>

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

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
 COMPONENT UNITS
 JUNE 30, 2016
 (Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
LIABILITIES			
Current Liabilities:			
Accounts payable and other current liabilities	\$ -	\$ 8,566	\$ 8,566
Accrued liabilities	7,595	511	8,106
Current portion of long-term debt	37,405	12,845	50,250
Current portion of other long-term liabilities	88	-	88
Total Current Liabilities	<u>45,088</u>	<u>21,922</u>	<u>67,010</u>
Noncurrent Liabilities:			
Unearned revenue	2,343	-	2,343
Net pension liability	1,942	923	2,865
Long-term debt	709,140	101,491	810,631
Total Noncurrent Liabilities	<u>713,425</u>	<u>102,414</u>	<u>815,839</u>
Total Liabilities	<u>758,513</u>	<u>124,336</u>	<u>882,849</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	164	203	367
NET POSITION			
Net investment in capital assets	11	34,581	34,592
Restricted for:			
Debt service	62,573	34,719	97,292
Loans and other financial assistance	545,645	26,501	572,146
Other	-	13,058	13,058
Unrestricted	265	10,792	11,057
Total Net Position	<u>\$ 608,494</u>	<u>\$ 119,651</u>	<u>\$ 728,145</u>

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

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
 COMPONENT UNITS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>
Water Infrastructure Finance Authority	\$ 34,859	\$ 29,044	\$ 26,795
Other Component Units	164,544	29,744	2,345
Total	<u>\$ 199,403</u>	<u>\$ 58,788</u>	<u>\$ 29,140</u>

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

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

WATER INFRASTRUCTURE FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
\$ 20,980	\$ -	\$ 20,980
-	(132,455)	(132,455)
-	12,443	12,443
-	3,892	3,892
6,250	1,539	7,789
-	50	50
-	32,462	32,462
-	4,384	4,384
27,230	(77,685)	(50,455)
581,264	197,336	778,600
\$ 608,494	\$ 119,651	\$ 728,145

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2016
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
ASSETS					
Cash and cash equivalent investments	\$ 18,605	\$ 38,573	\$ 4,403	\$ 29,156	\$ 90,737
Receivables:					
Pledges receivable	132,492	23,854	-	53,099	209,445
Other receivables	7,002	-	37	44,030	51,069
Total receivables	<u>139,494</u>	<u>23,854</u>	<u>37</u>	<u>97,129</u>	<u>260,514</u>
Investments:					
Investments in securities	713,560	741,536	16,800	194,756	1,666,652
Other investments	60,870	-	-	13,746	74,616
Total investments	<u>774,430</u>	<u>741,536</u>	<u>16,800</u>	<u>208,502</u>	<u>1,741,268</u>
Net direct financing leases	22,820	-	40,899	5,598	69,317
Property and equipment, net of accumulated depreciation	12,793	11,858	144,123	142,073	310,847
Other assets	33,921	9,363	3,316	14,667	61,267
Total Assets	<u>1,002,063</u>	<u>825,184</u>	<u>209,578</u>	<u>497,125</u>	<u>2,533,950</u>
LIABILITIES					
Accounts payable and accrued liabilities	9,609	3,077	6,870	31,259	50,815
Liability under endowment trust agreements	113,659	200,188	-	28,837	342,684
Long-term debt	103,495	-	252,699	147,905	504,099
Deferred revenue	-	-	-	27,820	27,820
Other liabilities	28,887	6,574	-	12,334	47,795
Total Liabilities	<u>255,650</u>	<u>209,839</u>	<u>259,569</u>	<u>248,155</u>	<u>973,213</u>
NET ASSETS					
Permanently restricted	432,262	484,140	-	79,849	996,251
Temporarily restricted	289,496	118,785	-	104,908	513,189
Unrestricted (deficit)	24,655	12,420	(49,991)	64,213	51,297
Total Net Assets	<u>\$ 746,413</u>	<u>\$ 615,345</u>	<u>\$ (49,991)</u>	<u>\$ 248,970</u>	<u>\$ 1,560,737</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, 2016
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
REVENUES					
Contributions	\$ 120,478	\$ 75,083	\$ -	\$ 61,725	\$ 257,286
Rental revenue	1,605	-	14,354	34,271	50,230
Sales and services	22,294	1,689	9,669	28,216	61,868
Net investment income	(15,573)	(8,610)	14	(3,496)	(27,665)
Grants and aid	-	-	-	17,344	17,344
Other revenues	11,240	8,913	7,790	7,410	35,353
Total Revenues	140,044	77,075	31,827	145,470	394,416
EXPENSES					
Program services:					
Payments to Universities	86,612	66,255	128	42,012	195,007
Leasing related expenses	-	-	-	9,524	9,524
Payments on behalf of Universities	-	10,716	-	6,943	17,659
Other program services	-	-	-	8,320	8,320
Management and general expenses	32,690	4,979	8,917	57,149	103,735
Fundraising expenses	-	8,827	-	4,340	13,167
Interest	1,563	-	11,809	7,537	20,909
Depreciation and amortization	668	-	12,142	4,736	17,546
Other expenses	10,348	-	17	7,771	18,136
Total Expenses	131,881	90,777	33,013	148,332	404,003
Increase (decrease) in Net Assets	8,163	(13,702)	(1,186)	(2,862)	(9,587)
Net Assets - Beginning	738,250	629,047	(48,805)	251,832	1,570,324
Net Assets - Ending	\$ 746,413	\$ 615,345	\$ (49,991)	\$ 248,970	\$ 1,560,737

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

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

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

A. REPORTING ENTITY

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

Component Units

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

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

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

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

The State reports the following component units as fiduciary funds:

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

The Public Safety Personnel Retirement System (PSPRS) is an agent, multiple-employer public employee retirement system that benefits public safety employees of certain state, county, and local governments. The PSPRS is jointly administered by the Board

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of Trustees and 233 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Board of Trustees is a seven-member board appointed by the Governor and approved by the Senate to serve a fixed five-year term. The State has the ability to impose its will on the PSPRS as the State Legislature can modify the plan design and benefits. Each eligible group participating in the system has a five-member local board. In general, all members serve a fixed four-year term. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multiple-employer public employee retirement plan that benefits elected officials and judges of certain state, county, and local governments who were members of the plan on December 31, 2013. As part of the 2013 Fifty-first Legislature, House Bill 2608 effectively closed the EORP to new members and created the Elected Officials' Defined Contribution Retirement System, with an effective date of January 1, 2014. The Board of Trustees of the PSPRS administers the EORP plan according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The State has the ability to impose its will on the EORP as the State Legislature can modify the plan design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The Corrections Officer Retirement Plan (CORP) is a multiple-employer public employee retirement plan that benefits prison and jail employees of certain state, county, and local governments. CORP includes a cost-sharing multiple-employer plan for Administrative Office of the Courts (AOC) probation officers and an agent multiple-employer plan for all other members. The Board of Trustees of the PSPRS, 26 local boards of the CORP, and 15 local boards of the AOC administer the plans according to the provisions of A.R.S. Title 38, Chapter 5, Article 6. The State has the ability to impose its will on the CORP and AOC as the State Legislature can modify the plans design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The State reports the following discretely presented component units:

Major Component Unit:

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 U.S. Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors. The seven Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor; thus, the State has the ability to impose its will on WIFA. Complete financial statements may be obtained from the WIFA's administrative office at 100 North 15th Avenue, Suite 103, Phoenix, AZ 85007, (602) 364-1323.

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 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. A financial benefit/burden relationship exists between the State and GADA as its fund was originally capitalized with General Fund appropriations and the State Legislature has swept monies from its fund over the years to balance the State's budget. Complete financial statements may be obtained from the GADA's administrative office at 100 North 15th Avenue, Suite 103, Phoenix, AZ 85007, (602) 364-1323.

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 A.R.S., the District can utilize tax incremental financing to help develop multipurpose facilities in the downtown Tucson area. The Rio Nuevo is governed by a nine-member board of directors, with five members appointed by the Governor, two members appointed by the President of the Senate, and the remaining two members appointed by the Speaker of the House of Representatives. All board of directors can be removed at will; thus, the State has the ability to impose its will on Rio Nuevo. Complete financial statements may be obtained from Rio Nuevo's administrative office at 400 West Congress, Suite 152, Tucson, AZ 85701, (520) 623-7336, or its website at www.rionuevo.org.

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

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

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB, with the exception of Downtown Phoenix Student Housing, LLC, the ASU Preparatory Academy, Inc. (ASU Prep), and Campus Research Corporation (CRC). The Downtown Phoenix Student Housing, LLC is included due to the nature and significance of the financial arrangement that it has with the State and that the State believes would be misleading to exclude. The ASU Prep is included because of its close affiliation to the State and that the State believes it would be misleading to exclude. The CRC is included because the U of A approves the budget and can access its resources.

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

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

Arizona Capital Facilities Finance Corporation (ACFFC) – The ACFFC provides facilities for use by students of ASU or ASU itself. A fiscal dependency and financial benefit/burden relationship exists between the ACFFC and the ASU.

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 restricted resources held by the U of A Foundation are significant to the U of A and can only be used by, or for the benefit of, the U of A or its constituents.

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 (ASU 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 the ASU for support of various programs. The economic resources held by these three component units are significant to the ASU and are entirely for the benefit of the ASU.

Arizona State University Research Park, Inc. (ASU Research Park) – The ASU Research Park manages a research park to promote and support research activities in coordination with ASU. In developing the research park, bonds were issued that are guaranteed by the ASU. A fiscal dependency and financial benefit/burden relationship exists between the ASU Research Park and the ASU.

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Thunderbird School of Global Management (Thunderbird) – The Thunderbird offers non-degree programs focused on global business across cultural, ethical, and multi-lingual curriculum. A fiscal dependency and financial benefit/burden relationship exists between the Thunderbird and the ASU.

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

ASU Prep – The ASU Prep prepares Arizona K-12 students for success with a university-embedded academic program that empowers them to complete college, compete globally, and contribute to their communities.

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

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

University of Arizona Campus Research Corporation (CRC) – The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Tech Park) and related properties. The CRC currently leases from the U of A the remaining 67% of building space of the Tech 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 Tech Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

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

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

Northern Arizona Real Estate Holdings, LLC, (NAREH) – The NAREH is a wholly owned subsidiary of the NAU Foundation and was established to construct, develop, equip, operate, maintain, lease, and hold real estate investments on behalf of the NAU Foundation.

NAU Ventures, LLC (NAUV) – The NAUV is a wholly owned subsidiary of the NAU Foundation and was established to license, or otherwise commercialize the intellectual property owned or controlled by the Arizona Board of Regents, the NAU, or the NAU Foundation.

Complete financial statements for each of the aforementioned component units, except for the U of A Foundation, may be obtained as follows:

ASU Foundation, ACFFC, ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, ASU Research Park, Thunderbird, Downtown Phoenix Student Housing, LLC, and the ASU Prep – contact ASU Financial Services at (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, 9070 South Rita Road, Suite 1750, Tucson, AZ 85747

EEE – Eller Executive Education, P.O. Box 210108, Tucson, AZ 85721-0108

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

The financial statements of the U of A Foundation are not publicly available. For information regarding the U of A Foundation's financial statements, contact the U of A Comptroller at the following address: University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, AZ 85719-0521.

Related Organizations

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

Arizona Health Facilities Authority (the Authority) – A.R.S. § 36-482 established the Authority to issue tax-exempt bonds and loans for the purpose of improving health care for Arizona residents by providing less expensive financing for health care facilities. Proceeds from bond issues are loaned to various qualifying 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) – A.R.S. § 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) – A.R.S. § 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) – A.R.S. § 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 A.R.S. § 35-701) that a multifamily residential rental project is planned for its jurisdiction and, before proceeding, shall obtain written consent from the governing body of the city, town, county, or tribal government. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve terms of seven years, and can be removed only for cause.

Joint Ventures

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

B. BASIS OF PRESENTATION

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

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

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

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

Program revenues include:

- charges to customers or applicants for goods, services, privileges provided, and fines or forfeitures
- operating grants and contributions
- 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 fund:

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

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Additionally, the State reports the following fund types:

Internal Service Funds – account for insurance coverage, employee benefits, automotive maintenance and operation, highway equipment rentals, data processing, telecommunications, information technology, personnel administration, postage and mailing, and surplus material services provided to State agencies on a cost-reimbursement basis.

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, and property collected by the State.

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 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 net pension liability, principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

D. DEPOSITS AND INVESTMENTS

1. Cash and Cash Equivalents

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

- *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.
- *Cash with U.S. Treasury* – consists of unemployment compensation contributions from Arizona employers that are deposited in a trust fund maintained by the United States Treasury.
- *Cash and pooled investments with State Treasurer* – 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.

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- *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.
- *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 State Street prices, as determined by independent, industry recognized data vendors who provide values that are either exchange based or based on an evaluation bid. Equities are priced utilizing the primary exchange closing price. All bonds are priced using an evaluated bid, 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.

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. The derivative instruments held by the ASRS consist of futures, forward contracts, options, swaps, rights, and warrants. Fair value of derivative instruments are determined by the custodial agent and reported on the Fiduciary Statement of Net Position. The fair value of limited partnership investments are based on estimated current values and accepted industry practice. Fair value is based on estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable fair values.

For the PSPRS, the EORP, and the CORP, investments are reported at fair value. Non-publicly traded assets are managed by external managers, who value the investments under their management in accordance with their established valuation policies. Short term investments are reported at cost plus accrued interest.

A schedule of investments measured at fair value and additional information regarding the inputs used to determine the fair value of investments are provided in Note 2.

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 inflows of resources.

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, 2016. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2016, 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. CAPITAL ASSETS

Capital assets are stated at cost or, if donated, at acquisition value. Interest incurred during the construction of capital assets, net of interest earned on the invested proceeds over the same period, is only capitalized in the proprietary funds.

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

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

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

Other intangibles include non-software 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.

The State is trustee to approximately 9.2 million acres of land acquired through U.S. Government land grants in the early 1900's. The State's unit of account for trust land is total acres for purposes of applying GASB requirements. Grazing lease agreements with open recreation use comprise the primary use of trust land and the nominal charge received from lease agreements fund the cost of the State's stewardship responsibilities. Trust land is classified as a capital asset. It does not meet the GASB definition of an investment as it's not held primarily for the purpose of income or profit nor does it have a present service capacity based solely on its ability to generate cash or to be sold to generate cash. The State acquired a substantial portion of trust land at no cost and its acquisition value has not been reliably estimated. Accordingly, trust 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 value at the date of acquisition or acquisition value if donated. 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.

H. DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represent a consumption of net position by the government that applies to a future period, and therefore will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position, similar to assets.

I. INVESTMENT EARNINGS

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

J. SCHOLARSHIP ALLOWANCES

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

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K. UNEARNED REVENUE

In the government-wide, governmental fund, and proprietary fund financial statements, unearned revenue is recorded when cash, receivables, or other assets are received prior to their being earned.

L. PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. 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 employment 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 hours if working in a public safety activity or an emergency response activity). An employee who separates from State employment is paid for all unused compensatory leave at a rate of compensation not less than the higher of: (1) the average regular rate received by such employee during the last three years of employment or (2) the final regular rate received by such employee.

For sick leave policy, see Note 13.C.

N. 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.

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.

O. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represent an acquisition of net position or fund balance that applies to a future period, and therefore will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources decrease net position or fund balance, similar to liabilities.

P. NET POSITION/FUND BALANCES

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

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Net position is reported in three categories:

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

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions, voter initiatives, or court orders.

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

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

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

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

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

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

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

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

Budget Stabilization Fund

The State's Budget Stabilization Fund (BSF) was enacted in 1990 by A.R.S. § 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 real adjusted Arizona personal income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of real 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.

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The budgets developed by the Governor and the Joint Legislative Budget Committee and submitted to the State Legislature at the start of each regular session include estimates of the amount to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount is done by the EEC on June 1 of the budget year. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. Additionally, by a two-thirds majority, the State Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal. The BSF's fund balance, including earnings on investments, as of June 30, 2016, was \$460.8 million.

Q. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. In addition, it provides for enhanced disclosures about fair value measurements. This Statement is effective for financial statements for fiscal years beginning after June 15, 2015. The State has implemented the requirements of this standard.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and amendments to certain provisions of GASB Statements No. 67 and 68*. This Statement establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and non-employer contributing entities. This Statement is effective for financial statements for fiscal years beginning after June 15, 2015. The State has implemented the requirements of this standard but they had no effect on the financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for financial statements for fiscal years beginning after June 15, 2015. The State has implemented the requirements of this standard but they had no effect on the financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Statement establishes specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. This Statement is effective for financial statements for fiscal years beginning after June 15, 2015. The State has implemented the requirements of this standard but they had no effect on the financial statements.

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, the Industrial Commission (the Commission), and the Insurance Department Guaranty Funds (IDGF). 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.

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

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

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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 Dodd-Frank Act of 2010. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with A.R.S. § 35-311.

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

In December 2011, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Modified Third Amended Lehman Brothers Joint Plan of Liquidation. During the current year, approximately \$1.6 million was received as payout of funds being held by the Indenture Trustee for Lehman Brothers securities, with \$1.2 million distributed to the participants. 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, 2016, the carry or cost basis and the fair value for the Lehman Brothers Pool were \$24.1 million and \$2.1 million, respectively. There was a distribution in October 2016, and future distributions are generally expected every six months thereafter. The remaining amount to be recovered is unknown.

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

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

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

State statutes authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. As such, investment management shall discharge the duties of their position with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a "prudent person" acting in a like capacity and familiar with the same matters would use in the conduct of an enterprise of a like character and with like aims as that of the system.

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 debt and equity investments. Per A.R.S. § 38-718, no more than 80% of the ASRS' assets may be invested at any given time in equities, measured at fair value. No more than 40% of the ASRS' assets may be in non-U.S. public investments, measured at fair value. No more than 60% of the ASRS' assets may be invested internally, measured at fair value. No more than 10% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank, measured at market value. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per A.R.S. § 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

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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 Arizona Board of Regents (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 A.R.S. § 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 A.R.S. § 38-718.

Per A.R.S. § 20-665 and § 20-687, the IDGF's board of directors shall submit to the director the fund's plan of operations. Investment policies adopted pursuant to the plans of operation authorize the IDGF to invest monies in obligations issued or guaranteed by the United States or any of its senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as share, checking, savings accounts, or certificate of deposits.

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 ASRS must be equal to at least 100% of the bank balance required to be collateralized (102% for the State Treasurer, the PSPRS, the EORP, and the CORP). 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.

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 regard to custodial credit risk for investments. As of June 30, 2016, the State had \$61.9 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 A.R.S. 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.

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The ASU's policies do not limit the overall maturity of the investments held by the operating and endowment funds; however, the operating fund investment policy includes guidelines addressing diversification and liquidity. The capital projects fund's portfolio is not limited as to the overall maturity of its investments, with the funds invested per the financing indentures to coincide with capital spending needs and debt service requirements, which are typically less than three years, with the additional limitation that certificates of deposit and commercial paper have maximum maturities of 360 days and 270 days, respectively.

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

The IDGF's investment policy requires that the maximum final maturity on an individual investment is 4 years or less.

The following table presents the State Treasurer's, the ASU's, the Commission's, and the IDGF's weighted average maturity in years by investment type as of June 30, 2016 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>
Asset backed securities	\$ 559,631	1.91
Certificates of deposit (negotiable)	169,967	0.09
Commercial mortgage backed securities	141,579	29.95
Commercial paper	1,307,003	0.08
Corporate notes & bonds	2,090,897	3.15
Government bonds	330,100	1.82
Money market mutual funds	353,859	0.05
Repurchase agreements	1,872,260	0.01
U.S. agency mortgage backed securities	1,176,729	17.63
U.S. agency mortgage backed securities – full faith	488,319	21.67
U.S. agency securities	1,412,980	1.35
U.S. agency securities – full faith	206,249	1.91
U.S. Treasury securities	1,955,839	1.85
Other	1,057	1.45
Total	<u>\$ 12,066,469</u>	4.13

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 utilizes effective duration to identify and manage its interest rate risk. Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents ASRS' effective duration by investment type as of June 30, 2016 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (in years)</u>
Asset backed securities	\$ 10,208	3.60
Commercial mortgage backed securities	55,905	3.70
Corporate bonds	1,572,433	4.90
Government bonds	769,082	6.90
Government mortgage backed securities	510,637	1.60
U.S. Treasury securities	226,050	0.40
Total	<u>\$ 3,144,315</u>	4.50

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

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The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution as of June 30, 2016 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)					
		Less than 1	1-5	6-10	11-15	16-20	More than 20
Certificates of deposit (negotiable)	\$ 39,148	\$ 11,137	\$ 27,516	\$ 495	\$ -	\$ -	\$ -
Corporate notes & bonds	874,204	88,740	272,217	34,673	3,105	1,183	474,286
Fixed income mutual funds	7,290	224	4,679	2,387	-	-	-
Government bonds	2,611	850	1,605	156	-	-	-
Money market mutual funds	104,162	104,162	-	-	-	-	-
U.S. agency securities	214,088	111,706	55,175	39,193	-	-	8,014
U.S. Treasury securities	82,784	37,126	45,626	32	-	-	-
Total	\$ 1,324,287	\$ 353,945	\$ 406,818	\$ 76,936	\$ 3,105	\$ 1,183	\$ 482,300

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, 2016 (expressed in thousands):

Interest Rate Terms	Corporate			Total
	Notes & Securities	U.S. Agency Securities	Other	
Investments (including full faith) with coupon tied to the London Interbank Offered Rate (LIBOR) plus/minus a fixed basis point which resets monthly, quarterly, or semi-annually.	\$ 527,833	\$ 119,945	\$ 64,966	\$ 712,744
Asset backed securities with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	148,927	-	-	148,927
Mortgage backed securities (including full faith) - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value of the investment.	122,714	1,665,049	-	1,787,763
U.S. Treasury securities with coupon tied to the U.S. Treasury 3 month bill money market yield plus/minus a fixed basis point which resets weekly.	-	-	180,065	180,065
Other investments (including full faith) with high sensitivity to rate changes.	5,543	105,765	-	111,308
Total	\$ 805,017	\$ 1,890,759	\$ 245,031	\$ 2,940,807

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, negotiable certificates of deposit, and municipal bonds must carry an investment grade rating by any NRSRO. 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. 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 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 A-1 by S & P at the time of purchase.

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

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

The IDGF's investment policy requires that investments shall be limited to those securities or other investments with a rating no lower than A- from S&P.

The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2016. 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 C	A-1	Not Rated
Asset backed securities	\$ 529,877	\$ 438,676	\$ 807	\$ 2,757	\$ -	\$ -	\$ -	\$ -	\$ 79,721	\$ 7,916
Certificates of deposit (negotiable)	189,961	-	54,935	-	-	-	-	-	115,032	19,994
Commercial mortgage backed securities	197,484	180,270	8,228	3,153	3,575	-	-	-	-	2,258
Commercial paper	1,307,003	-	-	-	-	-	-	-	1,307,003	-
Corporate notes & bonds	4,535,787	80,354	554,726	1,374,114	996,054	403,504	454,137	188,313	-	484,585
Fixed income mutual funds	7,290	-	-	-	-	-	-	-	-	7,290
Government bonds	1,090,585	141,832	933,073	5,715	6,159	302	-	-	3,215	289
Government mortgage backed securities	510,637	-	510,637	-	-	-	-	-	-	-
Money market mutual funds	458,021	458,021	-	-	-	-	-	-	-	-
Repurchase agreements	595,000	-	595,000	-	-	-	-	-	-	-
U.S. agency mortgage backed securities	1,161,473	-	1,158,674	-	-	-	-	-	-	2,799
U.S. agency securities	1,619,054	63,306	1,550,748	-	-	-	-	-	5,000	-
Other	24,387	401	400	-	256	-	-	-	-	23,330
Total	\$12,226,559	\$1,362,860	\$5,367,228	\$1,385,739	\$1,006,044	\$403,806	\$454,137	\$188,313	\$1,509,971	\$548,461

E. CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the Universities', and the Commission's investment policies provide that no more than 5% of their investments shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. However, securities issued by the U.S. government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt. The State Treasurer also exempts from this policy the purchase of Treasurer Warrant Notes for the State Agencies Diversified pool, provided the maximum amount of the notes purchased shall not exceed 50% of the market value of the pool, bonds issued by an agency of the State, and pre-refunded municipal bonds issued by any entity that are invested in obligations issued or guaranteed by the U.S. government or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities. The PSPRS', the EORP's, and the CORP's investment policies state that no more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency, or corporation other than bonds issued as direct obligations of, and fully guaranteed by, the U.S. Government. The IDGF's investment policies state that no more than 5% of its investment portfolio or \$5 million, whichever is less, shall be invested with any one issuer, with the exception of the U.S.

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government, its agencies, or instrumentalities. At June 30, 2016, investments in any one issuer, that were more than 5% of the primary government's total investments, are as follows: (i) Federal National Mortgage Association (fair value of \$844.8 million, or 6.3%) and (ii) Federal Home Loan Mortgage Corporation (fair value of \$705.6 million, or 5.2%).

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 A.R.S. § 38-718, no more than 40% of the ASRS' assets may be invested in foreign securities and those investments shall be made only by investment managers with expertise in those investments. The ASRS has not adopted a formal policy that is more restrictive. According to State statutes, the PSPRS, the EORP, and the CORP shall not invest more than 20% of the combined assets of the system or other plans that the Board of Trustees manages in foreign securities. The following table summarizes the State's foreign currency risk as of June 30, 2016 (expressed in thousands):

Foreign Currency Risk by Investment Type at Fair Value				
Currency	Short Term	Equities	Other Investments	Total
Australian Dollar	\$ 96	\$ 73,633	\$ -	\$ 73,729
Brazilian Real	56	18,212	-	18,268
British Pound Sterling	476	549,636	33,143	583,255
Canadian Dollar	226	68,535	-	68,761
Chilean Peso	15	1,899	-	1,914
Columbian Peso	10	692	-	702
Czech Koruna	27	238	-	265
Danish Krone	6	47,793	-	47,799
Euro Currency	18,069	813,904	270,856	1,102,829
Hong Kong Dollar	485	109,482	-	109,967
Hungarian Forint	23	433	-	456
Indonesian Rupiah	32	4,564	-	4,596
Japanese Yen	3,773	548,151	-	551,924
Malaysian Ringgit	14	5,382	-	5,396
Mexican Peso	40	7,645	13,121	20,806
New Israeli Shekel	85	5,105	-	5,190
New Taiwan Dollar	786	22,583	-	23,369
New Zealand Dollar	13	2,268	-	2,281
Norwegian Krone	152	22,684	-	22,836
Philippine Peso	37	2,586	-	2,623
Polish Zloty	50	1,864	-	1,914
Qatari Riyal	80	1,720	-	1,800
Singapore Dollar	136	25,555	-	25,691
South African Rand	232	13,819	-	14,051
South Korean Won	80	52,439	-	52,519
Swedish Krona	52	70,279	-	70,331
Swiss Franc	77	152,325	-	152,402
Thailand Baht	11	3,509	-	3,520
Turkish Lira	28	2,209	-	2,237
Total	\$ 25,167	\$ 2,629,144	\$ 317,120	\$ 2,971,431

G. FAIR VALUE MEASUREMENT OF INVESTMENTS

Fair value measurements are categorized within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to the unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) as follows:

- Level 1 – Quoted prices for identical investments in active markets that are accessible at the measurement date;

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- Level 2 – Inputs, other than quoted market prices included in Level 1, that are observable, either directly or indirectly;
- Level 3 – Prices or valuations that require inputs that are significant to the fair value measurement and unobservable.

1. Primary Government (excluding Universities and Retirement Systems)

a. Investments Classified in Fair Value Hierarchy

The investments held by the primary government (excluding Universities and Retirement Systems) at June 30, 2016, categorized within the fair value hierarchy, were as follows (expressed in thousands):

Investments by Fair Value Level	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset backed securities	\$ 527,606	\$ -	\$ 527,606	\$ -
Certificates of deposit (negotiable)	169,967	-	169,967	-
Commercial mortgage backed securities	125,851	-	125,851	-
Commercial paper	1,307,003	-	1,307,003	-
Corporate notes & bonds	1,719,301	-	1,719,301	-
Equities	3,177,518	3,177,518	-	-
Government bonds	320,565	-	320,565	-
Money market mutual funds	174,256	28,117	146,139	-
Repurchase agreements	1,872,260	-	1,872,260	-
Security lending collateral investments	504,372	-	504,372	-
U.S. agency mortgage backed securities	1,176,729	-	1,176,729	-
U.S. agency mortgage backed securities – full faith	488,319	-	488,319	-
U.S. agency securities	1,125,537	5,000	1,120,537	-
U.S. agency securities - full faith	206,249	-	206,249	-
U.S. Treasury securities	1,795,622	193,496	1,602,126	-
Other	24,387	23,330	1,057	-
Total investments by fair value level	14,715,542	\$ 3,427,461	\$ 11,288,081	\$ -
Investments Measured at the Net Asset Value (NAV)				
Foreign large value fund	16,176			
Natural resources investment fund	6,785			
Total investments measured at the NAV	22,961			
Total investments measured at fair value	\$ 14,738,503			

Investments categorized as Level 1 of the fair value hierarchy are primarily valued using prices quoted in active markets for those investments. Investments categorized as Level 2 of the fair value hierarchy are primarily valued using evaluated bids. The evaluated bid is based on a compilation of primary observable market information or a broker quote in a non-active market.

b. Investments Measured at the NAV

The investments held at June 30, 2016, valued using the NAV per share were as follows (expressed in thousands):

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Foreign large value fund	\$ 16,176	-	N/A	N/A
Natural resources investment fund	6,785	-	N/A	N/A
Total	\$ 22,961			

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2. Universities

a. Investments Classified in Fair Value Hierarchy

The investments held by the Universities at June 30, 2016, categorized within the fair value hierarchy, were as follows (expressed in thousands):

	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Asset backed securities	\$ 32,025	\$ -	\$ 32,025	\$ -
Certificates of deposit (negotiable)	39,148	-	39,148	-
Commercial mortgage backed securities	15,728	-	15,728	-
Corporate notes & bonds	757,967	-	757,967	-
Equities	3,927	2,830	367	730
Equity mutual funds	35,010	35,010	-	-
Fixed income mutual funds	5,009	5,009	-	-
Government bonds	13,893	-	13,893	-
Money market mutual funds	283,623	269,823	13,800	-
Mutual funds – asset allocation	226	226	-	-
Real estate	52,623	-	-	52,623
U.S. agency securities	493,517	-	493,517	-
U.S. Treasury securities	243,001	243,001	-	-
Total investments by fair value level	1,975,697	\$ 555,899	\$ 1,366,445	\$ 53,353
Other Investments at Fair Value				
ASU Foundation Endowment Pool	113,659			
NAU Foundation Investment Pool	28,535			
U of A - Academic Enhancement Fund Trust	246,264			
U of A Foundation	177,450			
U of A - Split Interest Endowment	7,718			
Total other investments at fair value	573,626			
Investments Measured at the NAV				
Equity mutual funds	2,500			
Total investments measured at the NAV	2,500			
Total investments measured at fair value	\$ 2,551,823			

Investments categorized as Level 1 of the fair value hierarchy are valued using unadjusted prices quoted for identical assets in active, exchange and brokered markets for those securities. Investments categorized as Level 2 of the fair value hierarchy are primarily valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments categorized as Level 3 of the fair value hierarchy are valued using various methods. The fair value of equities are valued using multiple pricing options. For managed assets, business appraisers use valuation methodologies based on a number of assumptions to create the price. For non-managed assets, pricing is provided by various sources including the issuer or private investment manager. Real estate is valued by using either (1) the market approach industry standard valuation technique which includes independent appraisals or (2) the income approach to measuring fair value which discounts future amounts to a single current amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

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b. Other Investments at Fair Value

The fair value of the ASU’s position in the ASU Foundation Endowment Pool is based on the ASU’s proportionate share of the Pool, which is valued at marked-to-market monthly. The fair values of the Academic Enhancement Fund Trust and Split Interest Endowment are derived from their respective custodial bank’s independent pricing services. The U of A has beneficial interests in these investment accounts, and determines fair value based on the U of A’s percentage of beneficial interest, which is the unit of account for purposes of fair value determination. The fair value of the U of A’s position in the U of A Foundation Pool is based on the U of A’s proportionate share of the Pool, which is valued at marked-to-market monthly.

c. Investments Measured at the NAV

The investments held by the Universities at June 30, 2016, valued using the NAV per share were as follows (expressed in thousands):

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity mutual funds	\$ 2,500	-	Quarterly	90 days
Total	<u>\$ 2,500</u>			

Equity mutual funds include event-driven hedge funds investing in corporate financial restructurings, major operations reorganizations, distressed situations, and other events.

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3. Retirement Systems

a. Investments Classified in Fair Value Hierarchy

The investments held by the ASRS, PSPRS, CORP, and EORP at June 30, 2016, categorized within the fair value hierarchy, were as follows (expressed in thousands):

	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Asset backed securities	\$ 10,208	\$ -	\$ 10,208	\$ -
Commercial mortgage backed securities	55,905	-	55,905	-
Corporate notes & bonds	2,058,519	-	1,592,689	465,830
Foreign currency	18,624	18,624	-	-
Government bonds	777,096	-	777,096	-
Government mortgage backed securities	510,637	-	510,637	-
Real estate	58,472	-	-	58,472
U.S. equities	9,834,708	9,536,834	-	297,874
Non-U.S. equities	3,042,418	2,825,033	-	217,385
U.S. Treasury securities	226,050	-	226,050	-
Total investments by fair value level	16,592,637	\$ 12,380,491	\$ 3,172,585	\$ 1,039,561
Investments Measured at the NAV				
Absolute return	342,966			
Comingled funds - commodities	3,314			
Comingled funds - equity	5,171,302			
Comingled funds - fixed income	2,536,967			
Comingled funds - multi asset	1,018,673			
Comingled funds - real estate	22,198			
Farmland fund	188,960			
Global tactical asset allocation	741,515			
Infrastructure fund	331,287			
Opportunistic debt funds	1,171,277			
Opportunistic equity funds	312,605			
Private credit	872,425			
Private debt funds	2,866,971			
Private equity funds	4,087,817			
Real assets	794,790			
Real estate	788,597			
Real estate funds	3,297,747			
Risk parity	306,004			
Total investments measured at the NAV	24,855,415			
Short-term investment funds at cost plus interest	606,649			
Securities lending collateral	696,090			
Total investments	\$ 42,750,791			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Fixed income securities classified in Level 2 are primarily valued using a compilation of primarily observable market information, a broker quote in a non-active market, or a matrix pricing technique that values securities based on their relationship to benchmark quoted prices. Level 3 securities, whose stated market prices are unobservable by the marketplace, are primarily priced using discounted cash flow techniques. Real estate assets classified in Level 3 are real estate investments valued by external appraisals generally obtained at least annually and performed by an independent appraiser.

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b. Investments Measured at the NAV

The investments held by the ASRS, PSPRS, CORP, and EORP at June 30, 2016, valued using the NAV per share were as follows (expressed in thousands):

Investment Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Absolute return	\$ 342,966	\$ 103,439	N/A	N/A
Comingled funds - commodities	3,314	-	Daily	None
Comingled funds - equity	5,171,302	-	Daily, Monthly	1-3 days
Comingled funds - fixed income	2,536,967	-	Daily	None
Comingled funds - multi asset	1,018,673	-	Monthly	5 days
Comingled funds - real estate	22,198	-	Daily	None
Farmland fund	188,960	-	N/A	N/A
Global tactical asset allocation	741,515	-	Monthly, Quarterly, Annually	5 days - 1 year
Infrastructure fund	331,287	-	N/A	N/A
Opportunistic debt funds	1,171,277	443,000	N/A	N/A
Opportunistic equity funds	312,605	154,000	N/A	N/A
Private credit	872,425	672,052	Daily, Monthly, Quarterly, Annually	1 day – 1 year
Private debt funds	2,866,971	2,520,000	N/A	N/A
Private equity funds	4,087,817	2,489,080	N/A	N/A
Real assets	794,790	235,356	Daily, Monthly, Quarterly, Annually	1 day – 1 year
Real estate	788,597	609,157	Daily, Monthly, Quarterly, Annually	1 day – 1 year
Real estate funds	3,297,747	1,420,000	N/A	N/A
Risk parity	306,004	-	Monthly, Quarterly, Annually	5 days
Total	\$ 24,855,415	\$ 8,646,084		

Absolute Return Funds – Absolute Return Funds include investments that are designed to make a positive absolute return regardless of the underlying market condition in the asset class that is primarily being invested in.

Commingled Funds – The types of strategies within commingled funds include investments in fixed income, public equity, real estate, commodities, and multi-asset type funds. Investments in the commingled multi-asset fund are in a fund that invests in liquid public securities. Multi-asset class strategies invest tactically within and across asset classes, seeking to exploit quantitative or fundamental drivers of asset class returns or risk allocations as market conditions warrant. The funds have a perpetual life. Redemption frequencies range from daily to monthly. There are no plans to liquidate the total portfolio.

Farmland Fund – Farmland investments are invested within one limited partnership. The investment strategy within this partnership includes: purchasing farmland, renting production land, and active farming. This investment has an approximate life of ten years and is considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. There are no plans to liquidate the investment.

Global Tactical Asset Allocation (GTAA) – GTAA investments are designed to offer risk reduction, uncorrelated returns and liquidity.

Private Credit – Private Credit investments are held in funds that focus on debt instruments.

Private Debt and Opportunistic Debt Funds – Opportunistic and Private Debt investments are primarily invested within limited partnerships or limited liability companies. The types of investment strategies within these structures consist of corporate debt, real estate, asset backed, and special situations. These investments generally have an approximate life of seven to ten years and are generally illiquid. Redemption restrictions are in place throughout the life of the investment. Distributions are received as investments are realized. There are no plans to liquidate the portfolio.

Private Equity and Opportunistic Equity Funds – Private equity investments are primarily invested within limited partnerships. The types of investment strategies within these partnerships include: buyouts, distressed debt, special situations, secondaries, mezzanine, and venture capital. These investments generally have an approximate life of ten years and are considered illiquid. Redemptions are generally restricted over the life of the partnerships. During the life of the partnerships, distributions are received as underlying partnership investments are realized. There are no plans to liquidate the total portfolio.

Real Asset – Real asset investments are held in assets like gas, oil, minerals, and timber.

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Real Estate and Infrastructure Funds – Investments in real estate and infrastructure funds are invested within limited partnerships or limited liability companies. Real estate investments include opportunistic, stabilized, and development assets within multi-family and senior housing, industrial, retail, office, and self-storage, with a North America focus. Infrastructure investments consist of mature, operational core infrastructure assets located in countries with investment-grade ratings. These investments generally have an approximate life of seven to ten years and are generally illiquid. Redemption restrictions are in place throughout the life of the investment. Distributions are received as investments are realized. There are no plans to liquidate the portfolio.

Risk Parity – Risk Parity investments focus on allocation of risk or volatility to be more resistant to market downturns.

c. Other Investments at Cost Plus Accrued Interest

Reinvested securities lending collateral generally includes repurchase agreements. Although the carrying of reinvested securities lending collateral approximates fair value, investments in repurchase agreements are reported at cost plus accrued interest, and accordingly, are not categorized within the fair value level hierarchy. Short term investment funds are reported at cost plus accrued interest, which approximates fair value.

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, 2016. 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. U.S. securities are loaned for collateral valued at 102% of the fair value of securities plus any accrued interest. International securities are loaned for collateral valued at 105% of the fair value of securities plus any accrued interest. The fair value at June 30, 2016 for loaned securities collateralized by cash and non-cash collateral was \$27.7 million and \$0.8 million, respectively. As part of the securities lending transactions, The Northern Trust Company received cash and non-cash collateral valued at \$28.1 million and \$0.8 million, respectively, at June 30, 2016. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the Commission's loans was approximately 27 days, as of June 30, 2016. Cash open collateral is invested in a short-term investment pool, the NILAP fund, which had an interest sensitivity of 34 days, as of June 30, 2016. There are no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to the Commission on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net Position. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2016, the Commission had \$28.1 million outstanding as payable for securities lending. The Commission has set a maximum restriction on the amount of securities that can be lent out at any one time at 13% of the total investment portfolio.

2. Arizona State Retirement System

The ASRS is permitted by A.R.S. § 38-718(G) to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with borrowers to loan securities and have the same securities redelivered at a later date. Securities eligible for loan include U.S. fixed income securities, U.S. equities, and international equities. The ASRS currently receives as collateral at least 102% of the fair value of the loaned securities and maintains collateral at no less than 100% for the duration of the loan. At year-end, the ASRS had limited counter party risk to borrowers because the collateral held by the ASRS for each loan exceeded the fair value owed to the ASRS. Securities loaned are initially fully collateralized by cash (USD), U.S. Government or agency securities, sovereign debt, corporate bonds and/or 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) repurchase agreements, and c) 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

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to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral are classified as an asset on the Statement of Fiduciary Net Position. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2016, the fair value of securities on loan was \$2.3 billion; of which \$282.0 million were cash collateralized loans. Cash of \$287.5 million received as collateral for securities loaned was reinvested and had a net position value of \$287.7 million, as of June 30, 2016. The securities lending payable at June 30, 2016 was \$287.5 million. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default. There is a restriction of \$3.5 billion 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.

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 A.R.S. 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, 2016, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$304.0 million, \$14.9 million, and \$80.2 million, respectively. At June 30, 2016, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were \$311.2 million, \$15.2 million, and \$82.1 million, respectively. The PSPRS, the EORP, and the CORP are indemnified for broker default by the securities lending agent. The PSPRS, the EORP, and the CORP have no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the retirement system or plan.

4. State Treasurer

The State Treasurer is permitted under A.R.S. § 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. currency), U.S. and international equities, and other assets permissible under Rule 15c3-3 under the Securities Exchange Act of 1934. Securities are loaned for collateral valued at not less than 102% of the fair value of the securities loaned at the close of trading on the preceding business day. 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 and b) 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, 2016, the cost and fair value of securities on loan were \$638.3 million and \$720.0 million, respectively. The associated fair value of the invested collateral was \$736.0 million, of which \$504.4 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 one day. 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, 2016, the State Treasurer had \$504.4 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:

Corporate notes	\$ 21,780,902
U.S. Treasury securities	69,504,549
Equities	135,510,493
Total Fair Value	<u>\$ 226,795,944</u>

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I. DERIVATIVES

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

- **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.
- **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.
- **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*.

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of derivative instruments for the year then ended as reported in the June 30, 2016 financial statements are as follows (expressed in thousands):

Investment Derivatives by Type					
Investment Derivatives	Changes in Fair Value (1)		Fair Value at June 30, 2016		
	Classification	Amount (2)	Classification	Amount	Notional (3)
Commodity futures long	Net increase (decrease) in fair value of investments	\$ (88,649)	Not applicable	\$ -	\$ 93,348
Commodity futures short	Net increase (decrease) in fair value of investments	8,176	Not applicable	-	(22)
Fixed income futures long	Net increase (decrease) in fair value of investments	2,650	Not applicable	-	246,100
Fixed income futures short	Net increase (decrease) in fair value of investments	(1,656)	Not applicable	-	(16,800)
Foreign currency forwards	Net increase (decrease) in fair value of investments	5	Futures receivable	-	-
Index futures long	Net increase (decrease) in fair value of investments	(30,277)	Not applicable	-	14,700
Index futures short	Net increase (decrease) in fair value of investments	(16)	Not applicable	-	-
Rights	Net increase (decrease) in fair value of investments	(686)	Equity securities	406	6,519
Warrants	Net increase (decrease) in fair value of investments	5	Equity securities	4	32
Total		<u>\$ (110,448)</u>		<u>\$ 410</u>	<u>\$ 343,877</u>

(1) Excludes futures margin payments.

(2) Negative values refer to losses.

(3) Notional denotes the number of units held of each particular derivative instrument. A dollar sign indicates currency units. 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

STATE OF ARIZONA
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published Reuter’s foreign currency rates as the primary source for the calculation. As of June 30, 2016, the ASRS did not have any investments in foreign currency forward contracts.

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.

As of June 30, 2016, investing activity in derivative instruments included exchange traded futures contracts. The ASRS did not have any over-the-counter investment derivative instruments as of June 30, 2016. Accordingly, the ASRS was not exposed to loss in case of default of all counterparties of over-the-counter positions as of June 30, 2016.

The ASRS has exposure to interest rate risk due to the investment in fixed income futures. 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 fixed income futures outstanding at June 30, 2016, for the year then ended, as reported in the June 30, 2016 financial statements are as follows (expressed in thousands):

Derivative Instruments Highly Sensitive to Interest Rate Changes				
Asset ID	Asset Description	Interest Rate	Fair Value	Notional (1)
FIXED INCOME FUTURES LONG				
ADIOHSWK4	US 5YR NOTE (CBT) SEP 16	0.00%	\$ -	\$ 68,300
ADIOHSWX6	US 10YR NOTE (CBT) SEP 16	0.00%	-	58,200
ADIOHSY30	US 2YR NOTE (CBT) SEP 16	0.00%	-	87,400
ADIOKF8V1	US ULTRA BOND (CBT) SEP 16	0.00%	-	16,800
ADIOKPN34	US LONG BOND (CBT) SEP 16	0.00%	-	15,400
Total Fixed Income Futures Long			\$ -	\$ 246,100
FIXED INCOME FUTURES SHORT				
ADIOHSWX6	US 10YR NOTE (CBT) SEP 16	0.00%	\$ -	\$ (16,800)
Total Fixed Income Futures Short			\$ -	\$ (16,800)

(1) Notional denotes the number of units held of each particular derivative instrument. Negative values refer to short positions.

The ASRS did not hold foreign currency forward contracts and future contracts as of June 30, 2016, and was not exposed to foreign currency risk through derivative instruments.

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) 542-7800, or their website at www.aztreasury.gov.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE 3. RECEIVABLES/UNAVAILABLE REVENUE/UNEARNED REVENUE

A. TAXES RECEIVABLE

At June 30, 2016, taxes receivable were as follows (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-major Governmental Funds	Non-major Enterprise Funds	Government-wide Total
Sales	\$ 533,191	\$ -	\$ 57,058	\$ -	\$ 590,249
Income – individual and corporate	155,964	-	-	-	155,964
Motor vehicle and fuel	-	74,157	-	-	74,157
Luxury	7,011	-	19,127	-	26,138
Unemployment	-	-	-	95,957	95,957
Other	-	-	4,941	-	4,941
Gross taxes receivable	696,166	74,157	81,126	95,957	947,406
Allowance for uncollectible taxes	(338,710)	-	-	-	(338,710)
Net Taxes Receivable	\$ 357,456	\$ 74,157	\$ 81,126	\$ 95,957	\$ 608,696

B. UNAVAILABLE REVENUE

At June 30, 2016, the components of unavailable revenue for governmental funds were as follows (expressed in thousands):

Unavailable Revenue for Governmental Funds:	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Other Governmental Funds	Total Governmental Funds
Delinquent sales and income tax	\$ 74,443	\$ -	\$ -	\$ -	\$ 74,443
Tobacco settlement	50,000	-	-	-	50,000
Child support administrative reimbursements	4,318	-	-	-	4,318
Federal grants	94,432	-	-	-	94,432
Drug Rebates	132,993	-	-	-	132,993
Land sales receivable	-	-	399,106	-	399,106
Land leases receivable	-	-	4,044	-	4,044
Other	1,114	561	-	508	2,183
Total Unavailable Revenue for Governmental Funds	\$ 357,300	\$ 561	\$ 403,150	\$ 508	\$ 761,519

STATE OF ARIZONA
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C. UNEARNED REVENUE

At June 30, 2016, the components of unearned revenue were as follows (expressed in thousands):

Unearned Revenue for Governmental Funds:	Current	Noncurrent	Total Unearned Revenue
General Fund:			
Advance insurance premium taxes	\$ 54,273	\$ -	\$ 54,273
Advance land lease payments	291	3,098	3,389
Advance county acute and long term care payments	20,189	-	20,189
Vaccine and commodity food supplement	563	-	563
Other	218	-	218
Transportation & Aviation Planning, Highway			
Maintenance & Safety Fund:			
Magazine subscriptions	1,787	-	1,787
Land Endowments Fund:			
Advance land lease payments	24,648	83,361	108,009
Non-Major Funds:			
Advance payments for Hawaii/Arizona PMMIS Alliance	572	-	572
Advance renewal of contractors' license assessment	702	-	702
Other	87	-	87
Total Unearned Revenue for Governmental Funds	<u>\$ 103,330</u>	<u>\$ 86,459</u>	<u>\$ 189,789</u>

Unearned Revenue for Proprietary Funds:	Current
Universities:	
Unexpended cash advances received	\$ 74,987
Auxiliary sales and services	8,632
Student tuition and fees	85,424
Deposits	1,180
Other	2,095
Non-Major Funds:	
Other	150
Total Unearned Revenue for Proprietary Funds	<u>\$ 172,468</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2016 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 3,115,924	\$ 266,465	\$ (1,661)	\$ 112	\$ 3,380,840
Construction in progress	1,459,732	393,741	(2,801)	(386,802)	1,463,870
Development in progress	105,439	21,340	-	(101,257)	25,522
Infrastructure	15,758,147	34,190	(12,358)	315,114	16,095,093
Total Non-depreciable Capital Assets	20,439,242	715,736	(16,820)	(172,833)	20,965,325
Depreciable capital assets:					
Buildings	2,338,928	14,063	(2,526)	73,000	2,423,465
Improvements other than buildings	177,107	5,604	-	660	183,371
Equipment	852,394	145,759	(47,345)	(9,414)	941,394
Software and other intangibles	251,041	25,598	(7,660)	93,702	362,681
Infrastructure	22,887	4,396	-	(181)	27,102
Total Depreciable Capital Assets	3,642,357	195,420	(57,531)	157,767	3,938,013
Less accumulated depreciation for:					
Buildings	(890,261)	(59,556)	2,129	(736)	(948,424)
Improvements other than buildings	(103,196)	(16,616)	-	(214)	(120,026)
Equipment	(628,348)	(73,192)	45,379	9,861	(646,300)
Software and other intangibles	(207,267)	(14,803)	7,660	10,959	(203,451)
Infrastructure	(13,023)	(449)	-	22	(13,450)
Total Accumulated Depreciation	(1,842,095)	(164,616)	55,168	19,892	(1,931,651)
Total Depreciable Capital Assets, Net	1,800,262	30,804	(2,363)	177,659	2,006,362
Total Governmental Activities Capital Assets, Net	\$ 22,239,504	\$ 746,540	\$ (19,183)	\$ 4,826	\$ 22,971,687
	Beginning Balance (as restated)	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Business-type Activities:					
Non-depreciable capital assets:					
Land	\$ 228,125	\$ 10,417	\$ -	\$ (9)	\$ 238,533
Construction in progress	341,760	290,982	(46,452)	(216,968)	369,322
Development in progress	60,804	2,928	-	(2,565)	61,167
Collections	20,228	820	(16)	-	21,032
Total Non-depreciable Capital Assets	650,917	305,147	(46,468)	(219,542)	690,054
Depreciable capital assets:					
Buildings	5,672,653	174,697	(17,580)	213,845	6,043,615
Improvements other than buildings	19,713	310	-	(3,729)	16,294
Equipment	1,600,405	107,348	(50,414)	(700)	1,656,639
Software and other intangibles	134,756	-	-	2,565	137,321
Infrastructure	533,792	9,868	(4)	2,554	546,210
Total Depreciable Capital Assets	7,961,319	292,223	(67,998)	214,535	8,400,079
Less accumulated depreciation for:					
Buildings	(2,250,265)	(166,336)	9,562	1,726	(2,405,313)
Improvements other than buildings	(12,125)	(4,670)	-	1,302	(15,493)
Equipment	(1,216,734)	(89,936)	44,190	869	(1,261,611)
Software and other intangibles	(87,578)	(9,775)	-	1	(97,352)
Infrastructure	(217,737)	(17,758)	1	-	(235,494)
Total Accumulated Depreciation	(3,784,439)	(288,475)	53,753	3,898	(4,015,263)
Total Depreciable Capital Assets, Net	4,176,880	3,748	(14,245)	218,433	4,384,816
Total Business-type Activities Capital Assets, Net	\$ 4,827,797	\$ 308,895	\$ (60,713)	\$ (1,109)	\$ 5,074,870

For beginning balance restatement detail, see Note 9. B.

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

General government	\$ 27,039
Health and welfare	27,063
Inspection and regulation	1,002
Education	1,783
Protection and safety	68,421
Transportation	26,180
Natural resources	<u>13,128</u>
Total Governmental Activities	<u>\$ 164,616</u>

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

Universities	\$ 279,800
Other	<u>8,675</u>
Total Business-type Activities	<u>\$ 288,475</u>

NOTE 5. PENSION BENEFITS

The State contributes to eighteen plans. The ASRS, PSPRS – Department of Public Safety (PSA), CORP – Department of Corrections (DCA), and EORP are described below. Benefits are established by State statutes and provide retirement, disability, and survivor benefits to State employees. The PSPRS’ Attorney General Investigators, Department of Liquor License and Control Investigators, the ASU Campus Police, the NAU Campus Police, the U of A Campus Police, State Park Rangers, Department of Emergency and Military Affairs, and Game and Fish Department agent multiple-employer defined benefit pension plans are not further disclosed because of their relative insignificance to the State’s financial statements. The CORP’s Department of Juvenile Corrections, Department of Public Safety Dispatchers, and Department of Public Safety Detention agent multiple-employer defined benefit pension plans are not further disclosed because of their relative insignificance to the State’s financial statements. Also, the Elected Officials’ Defined Contribution Retirement System, the Teachers Insurance Annuity Association/College Retirement Equities Fund, and Fidelity Investments Tax-Exempt Services Company defined contribution plans are not further disclosed because of their relative insignificance to the State’s financial statements.

Changes in the State’s net pension liability during the fiscal year ended June 30, 2016, were as follows (expressed in thousands):

	Governmental Activities	Business-type Activities
Beginning balance (as restated)	\$ 3,608,773	\$ 1,297,884
Increases	1,115,654	337,836
Decreases	<u>(887,658)</u>	<u>(238,365)</u>
Ending balance	<u>\$ 3,836,769</u>	<u>\$ 1,397,355</u>

For the year ended June 30, 2016, the State recognized pension expense for all plans to which it contributes of \$508.8 million and \$34.9 million of grant expense for EORP. Also, the State reported \$262.3 million of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes and \$4.1 million of grant expenditures related to EORP.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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A. ARIZONA STATE RETIREMENT SYSTEM

Benefits Provided—Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial Membership Date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* Any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* Any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions—In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.35 percent of the members’ annual covered payroll, and statute required the State to contribute at the actuarially determined rate of 10.85 percent of the active members’ annual covered payroll. In addition, the State was required by statute to contribute at the actuarially determined rate of 9.17 percent of annual covered payroll of retired members who worked for the State in positions that an employee who contributes to the ASRS would typically fill. The State’s contributions to the pension plan for the year ended June 30, 2016, were \$221.0 million.

During fiscal year 2016, the State paid for ASRS pension contributions as follows: 69.98 percent from the General Fund, 15.40 percent from major funds, and 14.62 percent from other funds.

Pension Liability—At June 30, 2016, the State reported a liability of \$3.4 billion for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The State’s proportion of the net pension liability was based on the State’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2015. The State’s proportion measured as of June 30, 2015, was 21.67 percent, which was an increase of .31 from its proportion measured as of June 30, 2014.

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Pension Expense and Deferred Outflows/Inflows of Resources—For the year ended June 30, 2016, the State recognized pension expense for ASRS of \$226.0 million. At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 92,104	\$ 176,868
Net difference between projected and actual earnings on pension plan investments	-	108,170
Changes in proportion and differences between State contributions and proportionate share of contributions	96,705	24,879
State contributions subsequent to the measurement date	<u>220,982</u>	<u>-</u>
Total	<u>\$ 409,791</u>	<u>\$ 309,917</u>

The \$221.0 million reported as deferred outflows of resources related to ASRS pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows (expressed in thousands):

Year ending June 30	
2017	\$ (27,370)
2018	(96,835)
2019	(74,989)
2020	78,086

Actuarial Assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the 5 year period ended June 30, 2012.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return
Equity	58%	6.79%
Fixed Income	25%	3.70%
Real Estate	10%	4.25%
Multi-Asset	5%	3.41%
Commodities	2%	3.93%
Total	100%	

Discount Rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State’s Proportionate Share of the ASRS Net Pension Liability to Changes in the Discount Rate—The following table presents the State’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the State’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate (expressed in thousands):

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
State’s proportionate share of the net pension liability	\$ 4,422,774	\$ 3,375,283	\$ 2,657,408

Pension Plan Fiduciary Net Position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016

B. PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM AND CORRECTIONS OFFICER RETIREMENT PLAN

Benefits Provided—PSPRS and CORP retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012
PSPRS Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest consecutive 60 months of last 20 years
Benefit percent:		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5 % per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

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	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012
CORP		
Retirement and Disability		
Years of service and age required to receive benefit	Sum of years and age equals 80 20 years, any age 10 years, age 62	25 years, age 52.5 10 years, age 62
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent:	2.0% to 2.5% for each year of credited service, not to exceed 80%	
Normal retirement		
Accidental disability retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service
Total and permanent disability retirement	50% or normal retirement if more than 25 years of credited service	
Ordinary disability retirement	2.5% per year of credited service	
Survivor Benefit		
Retired members	80% of retired member's pension benefit	
Active members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earnings. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees Covered by Benefit Terms—At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS PSA	CORP DCA
Retirees or beneficiaries currently receiving benefits	1,254	2,821
Inactive employees entitled to but not yet receiving benefits	181	970
Active employees	981	8,027
Total	<u>2,416</u>	<u>11,818</u>

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Contributions—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. The rates for contributions for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	PSPRS PSA	CORP DCA
Active members - Pension	6.65%*	8.41%
State - Pension	81.00%*	18.45%

* Per A.R.S. § 38-843B, for the PSPRS, the State has the option of increasing its contributions in order to reduce the contributions required from its members. The PSPRS – PSA rates have been adjusted to reflect that the State pays 5% of the members’ share.

In addition, statute required the State to contribute at the actuarially determined rate of 28.62 percent for the PSPRS and 11.33 percent for the CORP of annual covered payroll of retired members who worked for the State in positions that an employee who contributes to the PSPRS or CORP would typically fill.

The State’s contributions to the pension plan for the year ended June 30, 2016, were (expressed in thousands):

	PSPRS PSA	CORP DCA
Pension contributions made	\$ 56,121	\$ 60,984

During fiscal year 2016, the State paid for PSPRS and CORP pension contributions as follows: 58.20 percent from the General Fund and 41.80 percent from other funds.

Pension Liability—At June 30, 2016, the State reported the following net pension liabilities (expressed in thousands):

	Net Pension Liability
PSPRS - PSA	\$ 680,573
CORP - DCA	647,658

The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

In May 2016, voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the State’s net pension liability as a result of the statutory adjustments is not known.

Actuarial Assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

PSPRS and CORP - Pension	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.0% to 8.0% for PSPRS and 4.0%–7.25% for CORP
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for males and females)

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2011.

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The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

Discount Rates— The discount rate used to measure the PSPRS and CORP total pension liabilities was 7.85 percent. The projection of cash flows used to determine the PSPRS and CORP discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability
 (expressed in thousands)

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
	<u>(a)</u>	<u>(b)</u>	<u>(a) – (b)</u>
PSPRS - PSA			
Balances at June 30, 2015	\$ 1,014,922	\$ 361,254	\$ 653,668
Changes for the year:			
Service cost	13,258	-	13,258
Interest on the total pension liability	77,421	-	77,421
Differences between expected and actual experience in the measurement of the pension liability	(6,328)	-	(6,328)
Contributions - employer	-	40,328	(40,328)
Contributions - employee	-	4,418	(4,418)
Net investment income	-	12,867	(12,867)
Benefit payments, including refunds of employee contributions	(70,586)	(70,586)	-
Administrative expense	-	(317)	317
Other changes	-	150	(150)
Net changes	<u>13,765</u>	<u>(13,140)</u>	<u>26,905</u>
Balances at June 30, 2016	<u>\$ 1,028,687</u>	<u>\$ 348,114</u>	<u>\$ 680,573</u>

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	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
CORP - DCA			
Balances at June 30, 2015	\$ 1,396,097	\$ 776,005	\$ 620,092
Changes for the year:			
Service cost	47,131	-	47,131
Interest on the total pension liability	108,123	-	108,123
Differences between expected and actual experience in the measurement of the pension liability	(30,179)	-	(30,179)
Contributions – employer	-	43,105	(43,105)
Contributions – employee	-	27,734	(27,734)
Net investment income	-	28,414	(28,414)
Benefit payments, including refunds of employee contributions	(84,586)	(84,586)	-
Administrative expense	-	(704)	704
Other changes	-	(1,040)	1,040
Net changes	40,489	12,923	27,566
Balances at June 30, 2016	\$ 1,436,586	\$ 788,928	\$ 647,658

Sensitivity of the State’s Net Pension Liability to Changes in the Discount Rate— The following table presents the State’s net pension liabilities calculated using the discount rate of 7.85 percent, as well as what the State’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate (expressed in thousands):

	1% Decrease (6.85%)	Current Discount Rate (7.85%)	1% Increase (8.85%)
PSPRS - PSA			
Net pension liability	\$ 788,714	\$ 680,573	\$ 589,289
CORP - DCA			
Net pension liability	\$ 830,683	\$ 647,658	\$ 495,816

Pension Plan Fiduciary Net Position—Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

Pension Expense—For the year ended June 30, 2016, the State recognized the following pension expense (expressed in thousands):

	Pension Expense
PSPRS - PSA	\$ 80,172
CORP - DCA	83,086

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Deferred Outflows/Inflows of Resources—At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

<u>PSPRS – PSA</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 6,917
Changes of assumptions or other inputs	58,527	-
Net difference between projected and actual earnings on pension plan investments	14	-
State contributions subsequent to the measurement date	<u>56,121</u>	<u>-</u>
Total	<u>\$ 114,662</u>	<u>\$ 6,917</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
<u>CORP – DCA</u>		
Differences between expected and actual experience	\$ -	\$ 27,399
Changes of assumptions or other inputs	82,207	-
Net difference between projected and actual earnings on pension plan investments	1,558	-
State contributions subsequent to the measurement date	<u>60,984</u>	<u>-</u>
Total	<u>\$ 144,749</u>	<u>\$ 27,399</u>

The amounts reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ending June 30	PSPRS PSA	CORP DCA
2017	\$ 21,082	\$ 14,129
2018	21,082	14,129
2019	7,142	14,129
2020	2,318	17,758
2021	-	(3,779)

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C. ELECTED OFFICIALS' RETIREMENT PLAN

Benefits Provided—Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and Disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent: Normal retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor Benefit		
Retired members	75% of retired member's benefit	50% of retired member's benefit
Active members and other inactive members	75% of disability retirement benefit	50% of disability retirement benefit

*With reduced benefits of .25% for each month early retirement precedes the member's normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects of the plan.

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2016, statute required active EORP members to contribute 13 percent of the members' annual covered payroll and the State to contribute 23.5 percent of active EORP members' annual covered payroll. In addition, statute required the State to contribute 23.5 percent of annual covered payroll of retired members who worked for the State in positions that an employee who contributes to the EORP would typically fill. The State's contributions to the pension plan for the year ended June 30, 2016, were \$7.9 million, including \$4.1 million related to State support, as a nonemployer contributing entity.

During fiscal year 2016, the State paid for EORP pension contributions as follows: 97.61 percent from the General Fund and 2.39 percent from other funds. In addition, during fiscal year 2016, the State, as a nonemployer contributing entity, paid for EORP pension contributions as follows: 100.00 percent from the General Fund.

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Pension Liability—At June 30, 2016, the amount the State recognized as its proportionate share of the net pension liability, the related State support, as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the State were as follows (expressed in thousands):

State’s proportionate share of the EORP net pension liability	\$ 145,898
State’s proportionate share of the EORP net pension liability, as a nonemployer contributing entity	<u>151,048</u>
Total	<u>\$ 296,946</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The State’s proportion of the net pension liability was based on the State’s actual contributions to the plan relative to the total of all participating employers’ actual contributions for the year ended June 30, 2015. The State’s proportion, measured as of June 30, 2015, was 18.67 percent, which was an increase of .51 from its proportions measured as of June 30, 2014. The State’s proportion, as a nonemployer contributing entity, measured as of June 30, 2015, was 19.33 percent, which was an increase of .13 from its proportions measured as of June 30, 2014.

Pension Expense, Grant Expense, and Deferred Outflows/Inflows of Resources—For the year ended June 30, 2016, the State recognized pension expense for EORP of \$36.1 million and revenue of \$3.1 million for the designated court fees. In addition, the State recognized grant expense of \$34.9 million, as a result of its requirement to contribute to EORP as a nonemployer contributing entity. At June 30, 2016, the State and the State, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	The State		The State, as a nonemployer contributing entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 233	\$ 1,624	\$ 242	\$ 1,682
Changes of assumptions or other inputs	24,446	-	25,310	-
Net difference between projected and actual earnings on pension plan investments	885	-	916	-
Changes in proportion and differences between State contributions and proportionate share of contributions	1,177	-	741	-
State contributions subsequent to the measurement date	<u>3,805</u>	<u>-</u>	<u>4,078</u>	<u>-</u>
Total	<u>\$ 30,546</u>	<u>\$ 1,624</u>	<u>\$ 31,287</u>	<u>\$ 1,682</u>

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The amounts reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows (expressed in thousands):

Year ending June 30	The State	The State, as a nonemployer contributing entity
2017	\$ 20,877	\$ 21,306
2018	3,502	3,455
2019	73	75
2020	665	691

Actuarial Assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.25%
Inflation	4.00%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	16%	6.23%
Total	<u>100%</u>	

Discount Rate—At June 30, 2015, the discount rate used to measure the EORP total pension liability was 4.86 percent, which was a decrease of 0.81 from the discount rate used as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and non-employer contributions will be made as currently required by statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2028. A municipal bond rate of 3.80 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 25, 2015, was applied to periods of projected benefit payments after June 30, 2028.

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Sensitivity of the State’s Proportionate Share of the EORP Net Pension Liability to Changes in the Discount Rate—The following table presents the State’s and the State’s, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, proportionate share of the net pension liability calculated using the discount rate of 4.86 percent, as well as what the State’s and the State’s, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.86 percent) or 1 percentage point higher (5.86 percent) than the current rate (expressed in thousands):

	1% Decrease (3.86%)	Current Discount Rate (4.86%)	1% Increase (5.86%)
State’s proportionate share of the net pension liability	\$ 169,843	\$ 145,898	\$ 125,761
State’s proportionate share of the net pension liability, as a nonemployer contributing entity	175,839	151,048	130,201

Pension Plan Fiduciary Net Position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued EORP financial report.

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 A.R.S. 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.

In addition to the pension benefits described, the EORP provides health insurance premium subsidy benefits to retired members, which is a cost-sharing, multiple employer defined benefit post-employment plan. Title 38, Chapter 5 of the A.R.S. assigns the authority to establish and amend the health insurance subsidy benefit provisions to the Arizona State Legislature. As of July 1, 2013, the EORP administers a separate healthcare plan as defined under IRC § 401(h). In addition, the EORP is statutorily authorized, by A.R.S. § 38-817, to maintain a separate account for the health insurance subsidy assets and benefit payments. The health insurance subsidy assets are accounted for by employer and are available to pay only the health insurance benefit. Information on how to obtain the EORP's publicly available financial report is included in Note 1.A. However, the EORP OPEB benefit is relatively insignificant to the State's financial statements and, therefore, is not further described in these notes.

Agent plans

In addition to pension benefits described, the PSPRS and the CORP each provide 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 A.R.S. assigns the authority to establish and amend the health insurance premium subsidy benefit provisions to the Arizona State Legislature. As of July 1, 2013, the PSPRS and the CORP each administers a separate healthcare plan as defined under IRC § 401(h). In addition, the PSPRS and the CORP are statutorily authorized, by A.R.S. § 38-857 and A.R.S. § 38-906, respectively, to maintain a separate account for the health insurance premium subsidy assets and benefit payments. The health insurance premium subsidy assets are accounted for by employer and are available to pay only the health insurance premium benefit. 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. However, the PSPRS and the CORP OPEB benefits are relatively insignificant to the State's financial statements and, therefore, are not further described in these notes.

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Single-employer plan

The Arizona Department of Administration (ADOA) provides medical and accident benefits to retired State employees and their dependents, which is a single-employer defined benefit post-employment plan. Title 38, Chapter 4 of the A.R.S. assigns the authority to establish and amend the benefit provisions to the Arizona State Legislature. The ADOA pays the medical costs incurred by retired employees minus a specified premium amount, which is paid for entirely by the retiree or on behalf of the retiree, except for the NAU, which through the ADOA plan pays its medical costs directly. The notes that follow were adjusted to include the NAU in the ADOA plan disclosures, which in prior years were excluded due to its relative insignificance to the State's financial statements. Premium rates are based on a blend of active employee and retiree experience, resulting in a contribution basis which is lower than the expected claim costs for retirees only, which results in an implicit subsidization of retirees by the State. As of June 30, 2016, the plan had 56,152 active employees and 7,486 retirees and dependents receiving benefits. The ADOA does not issue a separate, publicly available financial report.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cost-sharing plan

For the ASRS' HBS and LTD plans, contributions are recognized as revenues when due, pursuant to statutory and contractual requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payments are made. Administrative expenses are recognized when incurred.

Single-employer plan

The ADOA plan's implicit rate subsidy, if not fully funded, represents an obligation of the State, the net OPEB obligation. The net OPEB obligation is allocated to significant participating funds based on their proportionate share of active benefit eligible employees and recorded in the government-wide and proprietary fund financial statements.

C. FUNDING POLICY

Cost-sharing plan

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the A.R.S. These contribution requirements are established and may be amended by the Arizona State Legislature. For the year ended June 30, 2016, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.12% of the members' annual covered payroll for LTD. In addition, the State also contributed 0.50% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2016, 2015, and 2014 were \$2.4 million, \$2.4 million, and \$4.5 million, respectively, for the primary government which were equal to the required contributions for these years. The State's contributions for the HBS to the ASRS for the years ended June 30, 2016, 2015, and 2014 were \$10.1 million, \$11.6 million, and \$11.3 million, respectively, for the primary government which were equal to the required contributions for these years.

Single-employer plan

The ADOA's current funding policy is pay-as-you-go for OPEB benefits. There are no dedicated assets at this time to offset the actuarial accrued liability. To the extent that the calculated annual required contribution exceeds the annual pay-as-you-go cost of providing OPEB benefits, a net OPEB obligation is created. The State's contribution for the ADOA OPEB for the years ended June 30, 2016, 2015, and 2014 were \$24.3 million, \$14.4 million, and \$14.1 million, respectively, for the primary government.

D. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The State's annual OPEB cost, OPEB contributions made, and changes in the State's net OPEB obligation of the ADOA single-employer defined benefit post-employment plan for the year ended June 30, 2016, are as follows (expressed in thousands):

Annual required contribution	\$ 143,439
Interest on net OPEB obligation	834
Adjustment to annual required contribution	<u>(1,376)</u>
Annual OPEB cost (expense)	142,897
Contributions made	<u>(24,298)</u>
Increase in net OPEB obligation	118,599
Net OPEB obligation-beginning of year	<u>27,780</u>
Net OPEB obligation-end of year	<u>\$ 146,379</u>

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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 the two preceding years of the ADOA single-employer defined benefit post-employment plan, are as follows (expressed in thousands):

Fiscal Year Ended	Annual OPEB Costs	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 142,897	17.0%	\$ 146,379
6/30/2015	22,977	62.7%	27,780
6/30/2014	22,455	63.0%	19,614

E. FUNDED STATUS AND FUNDING PROGRESS

The State's funded status for the ADOA single-employer defined benefit post-employment plan for the most recent actuarial valuation is as follows (expressed in thousands):

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
6/30/2016	-	\$ 1,182,155	\$ (1,182,155)	0.0%	\$ 3,496,022	(33.8)%

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 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 and on the pattern of sharing of costs between the employer and plan member to that point. 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 the ADOA single-employer defined benefit post-employment plan for the most recent actuarial valuation are as follows:

Actuarial valuation date	June 30, 2016
Actuarial cost method	entry age normal, level dollar
Actuarial assumptions:	
Investment rate of return	3.0%
Projected salary increases	0.0%
Discount rate	3.0%
Cost-of-living adjustments	none
Healthcare cost trend rate	7.0% initial 4.5% ultimate
Amortization method	level dollar, open
Remaining amortization period	30 years

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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, 2016, pledged revenues totaled \$200.8 million, of which 18.7% (\$37.5 million) was required to cover debt service. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of July 1, 2029 is \$487.5 million.

2. Arizona Department of Transportation

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.6 billion.

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 \$1.5 billion in outstanding Highway Revenue Bonds issued since 2011. Proceeds from the bonds finance portions of the ADOT's Five Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$2.3 billion. Principal and interest paid for the current year and total pledged revenues were \$144.4 million and \$589.5 million, respectively. The annual principal and interest payments on the bonds required 24.5% of the pledged revenues.

The Maricopa County Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the ADOT. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$782.8 million.

The ADOT has pledged future transportation excise taxes to repay \$717.2 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2007. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, AZ. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$900.5 million. Principal and interest paid for the current year and total pledged revenues were \$103.6 million and \$263.0 million, respectively. The annual principal and interest payments on the bonds required 39.4% of the pledged revenues.

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

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

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, and State school trust revenue refunding bonds outstanding at June 30, 2016. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of \$72.263 million are not available to pay debt service on the State school trust revenue refunding bonds per the debt documents. At June 30, 2016, pledged revenues totaled \$688.5 million, of which 13.6% (\$93.9 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2020 are \$323.3 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 February 25, 2016, the U of A sold System Revenue Refunding Bonds Series 2016 (2016 Bonds) for \$175.385 million dated March 31, 2016. The 2016 Bonds include \$175.385 million of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2019 to 2039. The 2016 Bonds with maturity on or after June 1, 2027, are subject to optional redemption without premium. The 2016 Bonds sold at a premium of \$31.311 million. The U of A realized net proceeds of \$205.559 million, after payment of \$1.137 million for issuance costs and underwriter discounts. The net proceeds were used to refund in advance of maturity a portion of System Revenue Bonds Series 2007, 2008A, and 2009A totaling \$6.840 million, \$15.295 million, and \$159.305 million respectively. The advance refunding generated a net present value economic gain of \$18.127 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 \$3.053 million in the first year and an average of \$655 thousand in years two through twenty-four. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$18.189 million. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense through the year 2039 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 \$202.120 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

In fiscal year 2015, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2007 and 2008A. At June 30, 2016, the outstanding principal balance of the refunded bonds was \$27.725 million, which will be paid by investments held in an irrevocable trust with fair value of \$29.404 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

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The U of A's outstanding SPEED Revenue Bonds Series 2010 were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act (ARRA). As such, the U of A is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the U of A must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the U of A by the Federal government may be reduced or eliminated due to such issues as failure by the U of A to submit the required information, any amounts owed by the U of A to the Federal Government, or changes in the law that would reduce or eliminate such payments. Due to the federal sequestration, the U of A will receive a 6.8% reduction (totaling \$110 thousand) in the federal interest subsidy for the August 1, 2016 debt service payment and a 6.9% reduction (totaling \$219 thousand) in the federal interest subsidy for the February 1 and August 1, 2017 debt service payments.

The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2016. 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, 2016, pledged revenues totaled \$1.21 billion, of which 6.0% (\$70.7 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 4% of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2048 are \$1.64 billion.

b. Northern Arizona University

On May 19, 2016, the NAU sold \$11.1 million of Lease Revenue Refunding Bonds Series 2016 with an interest rate of 2.61%. Refunded bonds total \$10.6 million of the 2006 North Campus Facilities Lease Revenue Bonds for maturities from June 1, 2016 to June 1, 2036. The refunding set aside \$10.8 million that purchased Global Proceed Escrow that matured between 6/01/2016 and 6/02/2016. The present value of refunded debt prior to 5/19/2016 was \$17.0 million and the net present value of savings was \$2.2 million. The advanced refunding decreases the NAU's debt service by an average of \$103 thousand annually through 6/1/2036.

On May 26, 2016, the NAU sold \$33.8 million of Systems Revenue and Refunding Bonds Series 2016 for the purpose of the acquisition, construction, improvements, renovations and equipping of the South Dining buildings and the first floor of the adjoining DuBois Center totaling approximately 51,000 square feet, located in the south campus area of the NAU main campus. The Systems Revenue and Refunding Bonds Series 2016 includes Series 2016A new money tax-exempt portion of \$9.1 million and a refunding tax-exempt portion of \$21.6 million with interest rates ranging from 4% to 5%, and Series 2016B new money taxable portion of \$3.1 million with interest rates ranging from 1.15% to 2.88%. Refunded bonds total \$23.1 million including \$940 thousand of the Systems Revenue Bonds Series 2007 with a maturity date of June 1, 2018, \$22.2 million of the Systems Revenue Bonds Series 2008 (New Money) with June 1 maturities in years 2019 to 2021, and 2028 to 2038. The refunding set aside \$25.6 million, including proceeds from the issuance premium, into escrow that purchased Treasury note securities maturing between 5/31/2016 and 5/31/2018. The present value of prior refunded debt was \$41.9 million and the net present value of savings was \$2.3 million. The advanced refunding decreases the NAU's debt service by an average of \$568 thousand annually for fiscal years 6/30/2016 through 6/30/2019 and decreases debt service by an average of \$3 thousand annually for fiscal years 6/30/2020 through 6/30/2033.

In the current and 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 the June 30, 2016, \$64.3 million of such bonds outstanding are considered defeased.

The Series 2009A and 2010 Bonds were issued as designated Build America Bonds under the provisions of the ARRA. As such, the NAU is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the NAU must file certain required information with the Federal Government between 90 and 45 days prior to the interest payment date. The amount paid to the NAU by the Federal Government may be reduced or eliminated due to such issues as failure by the NAU to submit the required information, any amounts owed by the NAU to the Federal Government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2016, the Federal Government reduced federal direct payment claims filed between October 1, 2015 and September 30, 2016 by 6.8% due to the federal budget sequestration resulting in a \$259 thousand reduction in direct payments to the NAU. For accounting purposes, any direct payments received from the U.S. Treasury Department are recorded as non-operating revenue.

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

The NAU has pledged portions of its gross revenues towards the payment of debt related to system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2016. 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 revenues have averaged \$252 million for the prior five years. For fiscal year 2016, pledged revenues totaled \$287 million, of which 9.3% (\$26.7 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 9.8% of pledged revenues. Future pledged revenues required to pay all remaining related debt service for the bonds through final maturity of June 1, 2044 are \$786.3 million.

c. Arizona State University

As of June 30, 2016, the ASU had issued a combination of fixed and variable rate bonds, of which \$1.2 billion is outstanding. 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 defeased bonds outstanding at June 30, 2016 totaled \$162.4 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, 2016. These related system 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 enterprise revenue, net 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, 2016, pledged revenues totaled \$1.5 billion, of which 5.9 percent (\$86.2 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 the ASU's senior and subordinate revenue bonds through final maturity of July 1, 2046 total \$2.0 billion. In addition to a senior pledge of revenues for ASU system revenue bonds, the ASU has pledged the same revenues on a subordinated basis to secure the ASU SPEED revenue bonds and the Series 2006 ASU Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2016 totaled \$5.2 million with annual debt service payments of approximately \$1.2 million through July 1, 2021.

In June 2008, the Legislature approved the SPEED which provides the ASU with capital improvement funds for critical construction and deferred maintenance projects. SPEED projects are debt financed with revenue bonds and 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.

In December 2015, the ASU issued \$102.7 million of system revenue bonds, Series 2015D, with an average maturity of 18.2 years and an average interest rate of 3.67 percent. The bonds were issued to fund Phase 2 of the Sun Devil Stadium Renovation project, classroom and laboratory renovations and building and infrastructure enhancements and modifications.

In January 2016, the ASU issued \$37.1 million of system revenue refunding bonds, Series 2016A, with an average maturity of 8.7 years and an average interest rate of 2.29 percent. The bonds were issued to refund various outstanding bonds of the ASU. The refunded debt is considered defeased and related liabilities are not included in the accompanying financial statements. The issuance of the refunding bonds, resulted in a \$2.9 million reduction in future debt service payments, with an economic gain of \$2.9 million based upon present value savings.

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the ARRA. As such, the ASU is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35% of the interest owed on each interest payment date. The amount paid to the ASU by the Federal government may be reduced or limited due to such issues as failure by the ASU to submit the required information, offsets to reflect any amounts owed by the ASU to the Federal government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2016, the ASU received Federal Direct Payments totaling \$3.7 million, net of a \$300 thousand or 6.8 percent reduction due to

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the federal budget sequestration. For accounting purposes, any direct payments received from the U.S. Treasury are recorded as non-operating revenue.

The ASU has two series of variable rate demand system revenue refunding bonds outstanding, Series 2008A and Series 2008B, totaling \$88.9 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2016 was 0.40 percent for the Series 2008A bonds and 0.39 percent for the Series 2008B bonds. The ASU's variable rate demand bonds have remarketing features which allow bondholders to put debt back to the ASU. In accordance with GASB Interpretation No. 1, Demand Bonds Issued by State and Local Government Entities, the total outstanding principal balance for variable rate demand bonds is required to be classified as a current liability. On May 4, 2016, the Irrevocable Transferable Direct-Pay Letter of Credit with JPMorgan Chase Bank, N.A. expired and the ASU executed a self-liquidity facility agreement to provide liquidity if the bonds are put by bondholders. It is the ASU's intent to repay its variable rate demand bonds in accordance with the maturities set forth in the official statement; however, in the absence of a "take out agreement" the ASU has classified the total outstanding principal balance of the 2008 bonds as a current liability.

Securities and cash restricted for bonds debt service held by the trustee at June 30, 2016 totaled \$76.7 million.

The ASU presently plans to issue up to \$275.6 million in system revenue bonds during the next year.

Effective January 1, 2007, the ASU entered into a \$103 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 outstanding \$88.3 million notional amount at June 30, 2016 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 is 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 percent 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, 2016 was 0.41 percent. At June 30, 2016, the synthetic fixed interest rate on the bonds was:

Interest Rate Swap	Terms	Rates (%)
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(0.41)
Net interest rate swap payments		3.50
Variable-rate bond coupon payments	Spread to SIFMA	0.40
Synthetic fixed interest rate on bonds		3.90

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, 2016, 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 become 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 A1 by Moody's as of June 30, 2016. 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, 2016, the swap had a fair value of \$(23.2) million, which represents the cost to the ASU to terminate the swap. The June 30, 2015 fair value was \$(16.8) 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, as amended by GASB 63, the fair value of

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the ASU's hedging derivative instrument is reported on the statement of net position as a deferred outflow of resources (interest rate swap) and a liability (derivative instrument - interest rate swap).

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2016 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2016
Governmental Activities:				
Department of Transportation	2007-2015	2017-2038	1.19-5.25%	\$ 2,236,995
School Facilities Board	2003-2013	2017-2020	.35-5.00%	309,205
Department of Administration	2010	2017-2029	3.00-5.00%	353,675
Business-type Activities:				
University Revenue Bonds	2004-2016	2017-2049	.40-6.64%	2,701,665

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2016 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
2017	\$ 241,765	\$ 129,986	\$ 371,751	\$ 92,385	\$ 127,016	\$ 2,991	\$ 222,392
2018	268,565	122,200	390,765	84,815	123,994	2,884	211,693
2019	234,145	113,238	347,383	85,055	120,779	2,773	208,607
2020	242,640	104,751	347,391	97,285	116,874	2,655	216,814
2021	187,860	95,406	283,266	97,115	112,471	2,532	212,118
2022-2026	950,085	329,327	1,279,412	554,180	486,516	10,589	1,051,285
2027-2031	517,060	137,089	654,149	580,145	343,736	6,446	930,327
2032-2036	216,990	37,919	254,909	483,625	214,924	1,416	699,965
2037-2041	40,765	3,082	43,847	365,770	106,054	-	471,824
2042-2046	-	-	-	228,095	28,381	-	256,476
2047-2049	-	-	-	33,195	1,133	-	34,328
Total	\$ 2,899,875	\$ 1,072,998	\$ 3,972,873	\$ 2,701,665	\$ 1,781,878	\$ 32,286	\$ 4,515,829

B. GRANT ANTICIPATION NOTES

Grant Anticipation Notes (GANs) are issued by the ADOT and secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of GANs issued in prior years and outstanding at the start of the fiscal year was \$194.7 million.

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

The ADOT has pledged federal revenues to repay \$147.3 million in outstanding GANs. 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 \$191.6 million. Principal and interest paid for the current year and total pledged revenues were \$56.9 million and \$998.3 million, respectively. The annual principal and interest payments on the GANs required 5.7% of the pledged revenues.

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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, 2016
Governmental Activities:				
Department of Transportation	2009-2012	2017-2026	4.00-5.25%	\$ 147,320

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
2017	\$ 11,770	\$ 7,393	\$ 19,163
2018	12,325	6,838	19,163
2019	12,925	6,240	19,165
2020	13,545	5,622	19,167
2021	14,215	4,947	19,162
2022-2026	82,540	13,282	95,822
Total	\$ 147,320	\$ 44,322	\$ 191,642

C. CERTIFICATES OF PARTICIPATION

Governmental Activities

1. Department of Administration

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

On July 29, 2015, the State issued Refunding COPs Series 2015 (2015 COPs) for \$164.0 million. The 2015 COPs include serial certificates with interest rates ranging from 1.00% to 5.00% and maturity dates from 2016 to 2028. The 2015 COPs are subject to optional or extraordinary redemption prior to maturity pursuant to the debt documents. The State realized net proceeds of \$192.6 million. Included in net proceeds were the receipt of \$25.4 million of net issue premium and \$3.9 million of accumulated lease payments made by the State for the Capitol Mall Series 2005 Refunding Bonds (PLTO I Bonds) held by the trustee, and payment of \$767 thousand of bond issuance costs. The net proceeds were used to current-refund all outstanding PLTO I Bonds, and to advance-refund a portion of the Series 2008A COPs with an outstanding principal balance of \$112.4 million. The current and advance refundings resulted in a combined debt service savings of \$18.5 million and a combined net present value economic gain of \$15.3 million. The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9.4 million. This difference, reported as a deferred outflow of resources in the accompanying financial statements, is

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being amortized to interest expense on a straight-line basis through fiscal year 2028. The refunded 2008A COPs will be redeemed on March 1, 2018 by investments in U.S. government obligations held in an irrevocable trust.

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

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. The SFB Series 2010 COPs are subject to extraordinary mandatory prepayment from unexpended proceeds pursuant to the debt documents. On February 6, 2014, the SFB redeemed \$9.5 million of the Series 2010 COPs pursuant to the extraordinary mandatory prepayment provisions in the debt documents. Beginning August 15, 2012, annual deposits to the sinking fund were 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. The sinking fund deposit requirements were adjusted to reflect the extraordinary mandatory prepayment redemption which occurred on February 6, 2014. All proceeds received from the issuance of the Series 2010 COPs have been expended as of June 30, 2015. As a result, the extraordinary mandatory prepayment discussed above no longer applies. All other prepayment provisions remain in force pursuant to the debt documents.

On July 30, 2015, the SFB issued Refunding COPs Series 2015A for \$263.5 million (2015A COPs). The 2015A COPs include serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates from 2016 to 2024. The 2015A COPs are not subject to optional prepayment prior to maturity; however, these COPs are subject to defeasance pursuant to the debt documents. The SFB realized net proceeds of \$296.2 million, after receipt of \$33.5 million of issue premium and payment of \$798 thousand of bond issuance costs. The net proceeds were used to advance-refund a portion of the Series 2008 COPs with an outstanding principal balance of \$257.4 million. The advance refunding resulted in a debt service savings of \$15.1 million and a net present value economic gain of \$13.9 million. The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$35.1 million. This difference, reported as a deferred outflow of resources in the accompanying financial statements, is being amortized to interest expense on a straight-line basis through fiscal year 2024. The refunded 2008 COPs will be redeemed on September 1, 2018 by investments in U.S. government obligations held in an irrevocable trust.

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

Business-Type Activities

3. Universities

a. University of Arizona

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

In fiscal year 2015, the U of A refunded, in advance of maturity, the remaining principal balance of COP Series 2007A. At June 30, 2016, the outstanding principal balance of the refunded certificates was \$10.210 million which will be paid by investments held in an irrevocable trust with fair value of \$10.590 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

b. Northern Arizona University

In prior fiscal years, the NAU defeased certain COPs by either placing the proceeds of new COPs, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded COPs.

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Accordingly, the trust account assets and liability for the defeased COPs are not included in the accompanying financial statements. At June 30, 2016, \$8.7 million of such outstanding COPs are considered defeased.

c. Arizona State University

At June 30, 2016, 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.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2016 totaled \$7.5 million.

A summary of the COPs issued as of June 30, 2016 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
Department of Administration:					
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	\$ 238,990	\$ 55,400	4.00 – 5.00
General Fund Budget Reconciliation 2010A	2010	2030	709,090	601,000	3.75 – 5.25
General Fund Budget Reconciliation 2010B	2010	2030	289,705	244,280	3.00 – 5.00
Refund 2001 PLTO, 2002A/2004B COPs	2013	2029	62,630	42,005	3.00 – 5.00
Refund 2005 Gov Office Lease Rev Capitol Mall, 2008A COP	2016	2028	163,995	161,630	2.00 – 5.00
School Facilities Board:					
New School Construction 2008	2009	2019	580,035	124,560	4.38 – 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	81,820	6.00
Refunding Certificates of 2003B and 2004A	2014	2020	29,945	27,920	4.00 – 5.00
Refunding Certificates of 2004B and 2004C	2014	2020	49,605	17,205	5.00
Refunding Certificates of 2005A-1	2014	2018	110,695	103,590	0.95 – 1.47
Refunding Certificates of 2005A-2	2014	2019	60,390	60,390	0.95 – 2.08
Refunding Certificates of 2005A-3	2014	2020	55,040	55,040	0.95 – 2.38
Refunding Certificates of 2008	2016	2024	263,545	257,835	2.35 – 5.00
Total Governmental Activities			\$ 2,763,775	\$ 1,891,460	
Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Business-type Activities:					
Arizona State University:					
2002 Certificates of Participation	2002	2019	\$ 103,800	\$ 230	4.76
2006 Certificates of Participation	2006	2031	15,810	11,425	4.53
2006 Refunding Certificates of Participation	2007	2027	65,890	55,350	4.15
2011A Mercado Refunding Certificates of Participation	2011	2025	8,465	6,225	4.27
2013 A/B Refunding Certificates of Participation	2013	2027	64,780	63,340	3.09
2014 A/B Refunding Certificates of Participation	2015	2031	84,525	77,140	3.04
University of Arizona:					
Fixed Student Union	1999	2020	21,607	266	5.13
Refund COPs 1999A&B, 2001B, 2002A&B, 2003A&B, 2004A	2006	2017	46,255	4,105	4.25
Biomedical Research Collaborative Bldg. Project	2006	2031	18,240	13,435	4.10 – 5.00
Refund COPs 2001B, 2002A, 2004B	2007	2031	93,045	72,925	4.00 – 4.50
Refund COPs 2003A	2012	2022	10,190	7,190	2.21 – 3.42
Refund COPs 2002B	2012	2023	20,600	16,500	4.00 – 5.00
Refund COPs 2003B & 2004A	2012	2031	124,940	122,470	3.00 – 5.00
Refund COPs 2005A-2005D, 2005F-2005I, 2006A-2006C, & 2006E	2015	2025	89,470	81,640	4.00 – 5.00
Refund COPs 2006C, 2006D, & 2007A	2015	2025	13,810	13,330	0.89 – 3.09
Northern Arizona University:					
2006 Certificates of Participation	2006	2017	12,445	440	4.4
2013 Refunding Certificates of Participation	2013	2031	36,005	36,005	4.8
2015 Refunding Certificates of Participation	2015	2031	18,825	18,540	4.9
Total Business-type Activities			\$ 848,702	\$ 600,556	

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Principal and interest debt service requirements on COPs outstanding at June 30, 2016 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
2017	\$ 200,095	\$ 81,500	\$ 281,595	\$ 43,050	\$ 26,073	\$ 69,123
2018	206,725	74,662	281,387	48,460	24,196	72,656
2019	178,615	67,545	246,160	51,085	22,130	73,215
2020	180,845	59,972	240,817	53,256	19,899	73,155
2021	122,815	52,915	175,730	50,215	17,379	67,594
2022-2026	572,040	175,855	747,895	200,100	53,942	254,042
2027-2030	430,325	41,309	471,634	154,390	16,427	170,817
Total	\$ 1,891,460	\$ 553,758	\$ 2,445,218	\$ 600,556	\$ 180,046	\$ 780,602

D. LEASES

1. Leases

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

- Title to or ownership of the asset is transferred to the State at the end of the lease.
- The lease contains a bargain purchase option.
- The lease term is equal to 75% or more of the useful life of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25% of the total useful life of the asset.)
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair 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, 2016 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2017	\$ 52,393	\$ 11,904
2018	50,758	11,219
2019	47,772	11,014
2020	44,259	11,018
2021	40,539	11,024
2022-2026	156,245	55,651
2027-2031	35,503	51,446
2032-2036	17,044	33,119
2037-2041	-	3,614
2042-2072	-	4,366
Total minimum lease payments	444,513	204,375
Less: amount representing interest	(109,604)	(63,258)
Present Value of Net Minimum Lease Payments	\$ 334,909	\$ 141,117

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2. Capital Assets Financed through Capital Leases

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

	Governmental Activities	Business-type Activities
Land	\$ 445	\$ 8,241
Buildings	380,576	196,832
Software	3,579	-
Equipment	72,700	1,627
	<u>457,300</u>	<u>206,700</u>
Less: accumulated depreciation	(83,071)	(48,097)
Carrying Value	<u>\$ 374,229</u>	<u>\$ 158,603</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 2016, the State paid for compensated absences as follows: 78.14% from the General Fund, 15.91% from other funds, and 5.95% from other major funds.

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F. CHANGES IN LONG-TERM OBLIGATIONS

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

	Balance July 1, 2015, as restated	Increases	Decreases	Balance June 30, 2016	Due Within One Year	Due Thereafter
Governmental Activities:						
Long-term Debt:						
Revenue bonds	\$ 3,141,190	\$ -	\$ (241,315)	\$ 2,899,875	\$ 241,765	\$ 2,658,110
Grant anticipation notes	194,670	-	(47,350)	147,320	11,770	135,550
Certificates of participation	2,030,805	427,540	(566,885)	1,891,460	200,095	1,691,365
Capital leases	408,784	21,566	(95,441)	334,909	34,572	300,337
Installment purchase contracts	349	-	(173)	176	176	-
Notes payable	22,179	-	-	22,179	-	22,179
Premiums and discounts on debt	492,048	58,933	(58,632)	492,349	43,560	448,789
Total Long-term Debt	6,290,025	508,039	(1,009,796)	5,788,268	531,938	5,256,330
Other Long-term Liabilities:						
Compensated absences	329,888	188,152	(195,785)	322,255	169,259	152,996
Pollution remediation obligations	19,713	5,447	-	25,160	11,665	13,495
Total Other Long-term Liabilities	349,601	193,599	(195,785)	347,415	180,924	166,491
Total Long-term Obligations	\$ 6,639,626	\$ 701,638	\$ (1,205,581)	\$ 6,135,683	\$ 712,862	\$ 5,422,821
Business-type Activities:						
Long-term Debt:						
Revenue bonds	\$ 2,675,430	\$ 360,040	\$ (333,805)	\$ 2,701,665	\$ 178,315	\$ 2,523,350
Certificates of participation	637,986	14	(37,444)	600,556	43,050	557,506
Capital leases	168,960	185	(28,028)	141,117	6,043	135,074
Installment purchase contracts	2,805	-	(691)	2,114	654	1,460
Premiums and discounts on debt	231,178	62,723	(25,427)	268,474	20,547	247,927
Total Long-term Debt	3,716,359	422,962	(425,395)	3,713,926	248,609	3,465,317
Other Long-term Liabilities:						
Compensated absences	97,988	100,289	(100,895)	97,382	16,631	80,751
U of A capital commitments	25,924	-	(3,500)	22,424	3,500	18,924
Total Other Long-term Liabilities	123,912	100,289	(104,395)	119,806	20,131	99,675
Total Long-term Obligations	\$ 3,840,271	\$ 523,251	\$ (529,790)	\$ 3,833,732	\$ 268,740	\$ 3,564,992

The above long-term obligations relating to governmental activities include internal service funds. Amounts for capital leases and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position because \$4.662 million of capital leases and \$159.820 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net position.

Compensated absences is restated for the Arizona Highway Magazine Fund. For detail, see Note 9.B.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8. INTERFUND TRANSACTIONS

INTERFUND BALANCES AND TRANSFERS

Interfund Receivables/Payables

Interfund balances as of June 30, 2016 are as follows (expressed in thousands):

Due From	Due To							Total Due To
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-Major Governmental Funds	Universities Fund	Non-Major Enterprise Fund	Internal Service Funds		
General Fund	\$ -	\$ 22,584	\$ 59,452	\$ -	\$ 8	\$ 1,325	\$ 83,369	
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	5,683	-	6,607	-	167	-	12,457	
Non-Major Governmental Funds	11,402	-	-	-	-	158	11,560	
Non-Major Enterprise Funds	12,903	-	8,968	38,648	-	-	60,519	
Internal Service Funds	-	-	-	-	-	33	33	
Total Due From	\$ 29,988	\$ 22,584	\$ 75,027	\$ 38,648	\$ 175	\$ 1,516	\$ 167,938	

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, 2016 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	Internal Service Funds		
General Fund	\$ -	\$ 510	\$ 241,842	\$ 643,784	\$ 1,962	\$ 888,098	
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	-	-	304,311	-	-	304,311	
Land Endowments Fund	13	-	24,931	-	-	24,944	
Non-Major Governmental Funds	139,669	227	10,730	-	-	150,626	
Non-Major Enterprise Funds	111,604	-	66,340	38,648	-	216,592	
Internal Service Funds	12,679	-	1,961	-	-	14,640	
Total Transfers In	\$ 263,965	\$ 737	\$ 650,115	\$ 682,432	\$ 1,962	\$ 1,599,211	

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

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 9. ACCOUNTING CHANGES

A. FUND FINANCIAL STATEMENTS

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

	Governmental Funds		Proprietary Funds		
	General Fund	Safety Fund	Universities	Non-Major Enterprise Funds	Internal Service Funds
Fund Balance/Net Position, as previously reported	\$ 43,481	\$ 1,028,712	\$ 2,204,924	\$ 411,161	\$ (247,730)
Prior period adjustment					
Implementation of GASB 72:					
Fair value adjustment	-	-	57,850	-	-
Fund reclassification	(18,629)	2,399	-	(401)	4,880
Fund Balance/Net Position, as restated	\$ 24,852	\$ 1,031,111	\$ 2,262,774	\$ 410,760	\$ (242,850)

B. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities
Net Position, as previously reported	\$ 20,274,856	\$ 2,695,794
Prior period adjustment		
Implementation of GASB 72:		
Fair value adjustment	-	57,850
Fund reclassification	401	(401)
Net Position, as restated	\$ 20,275,257	\$ 2,753,243

Prior Period Adjustment and Fund Reclassification

Beginning net position for the universities has been restated for the implementation of GASB Statement No. 72, *Fair Value Measurement and Application*. Included in the restatement of net position is a reclassification of land previously recorded as a capital asset of \$18.9 million.

The Arizona Highways Magazine Fund, previously reported as a non-major enterprise fund, has been reclassified as part of the Transportation & Aviation Planning, Highway Maintenance, & Safety Fund. Beginning fund balance and net position have been restated to reflect Arizona Highways Magazine Fund as a governmental fund as of July 1, 2015.

The Personnel Division Funds, Information Technology Fund, Special Services Fund, Surplus Property Funds, Legal Services Cost Allocation Fund, Stimulus Statewide Administration Fund, and the Construction Insurance Fund, previously reported in the General Fund, have been reclassified to Other Internal Service Funds. Beginning fund balance and net position have been restated to reflect these funds as proprietary funds as of July 1, 2015.

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NOTE 10. GOVERNMENTAL FUND BALANCES

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet for the year ended June 30, 2016 are as follows (expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Total
Fund Balances:					
Nonspendable:					
Inventory	\$ 9,669	\$ 6,179	\$ -	\$ -	\$ 15,848
Permanent fund principal	-	-	5,118,253	-	5,118,253
Restricted for:					
General government	9,449	-	-	30,782	40,231
Health and welfare	48,513	-	-	30,232	78,745
Inspection and regulation	3,136	-	-	2,252	5,388
Education	-	-	-	454,298	454,298
Protection and safety	22,629	-	-	546	23,175
Natural resources	-	-	-	10,980	10,980
Debt service	-	-	-	72,822	72,822
Capital projects	-	746,814	-	139,284	886,098
School facilities improvements	8,106	-	-	-	8,106
Committed to:					
General government	-	-	-	131,830	131,830
Health and welfare	27,576	-	-	221,808	249,384
Inspection and regulation	5,036	-	-	131,175	136,211
Education	17,552	-	-	-	17,552
Protection and safety	-	-	-	84,429	84,429
Transportation	-	291,449	-	-	291,449
Natural resources	15,833	-	-	77,258	93,091
School facilities improvements	60,487	-	-	-	60,487
Unassigned:	(78,903)	-	(21,325)	-	(100,228)
Total Fund Balances	\$ 149,083	\$ 1,044,442	\$ 5,096,928	\$ 1,387,696	\$ 7,678,149

NOTE 11. DEFICIT NET POSITION

The Risk Management Fund (RMF), an internal service fund, reported a deficit net position of \$377.4 million primarily due to the RMF receiving annual funding only for expected paid insurance losses (including loss adjustment expenditures) within the State's self-insured retention for the specific fiscal year. Accrued insurance losses of the RMF beyond the specific fiscal year are not considered when determining funding for each fiscal year.

The Retiree Accumulated Sick Leave Fund (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 \$153.1 million deficit net position is primarily due to the above funding mechanism.

A deficit net position is reported in certain funds as a result of recognition of net pension liability. These funds were the Telecommunication Fund, an internal service fund, which reported a deficit of \$155 thousand, and the Other Non-Major Enterprise Fund, which reported a deficit of \$409 thousand.

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NOTE 12. JOINT VENTURES

A. LARGE BINOCULAR TELESCOPE CORPORATION

The U of A is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the U of A and the INAF 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 for Scientific Advancement, The 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, 2016, the U of A has made cash contributions of \$18.2 million toward the project's construction costs, which were recorded as non-current investments on the Statement of Net Position. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment has commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, \$1.1 million in calendar year 2016, as a reduction in its investment. In the current fiscal year, the U of A also contributed services and materials totaling \$3.2 million, which increased its investment. At June 30, 2016, the investment totaled \$14.0 million. According to the most recent audited financial statements of the LBT for the year ended December 31, 2015, assets, liabilities, revenues, and expenses totaled \$130.0 million, \$3.0 million, \$22.0 million, and \$17.0 million, respectively.

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

B. GIANT MAGELLAN TELESCOPE ORGANIZATION

The Giant Magellan Telescope Organization (GMTO) is a non-stock, nonprofit, jointly governed corporation founded to own and administer the planning, design, construction, and operation of the 25-meter Giant Magellan Telescope, a proposed astronomical telescope and its associated buildings, equipment and instrumentation, to be located in northern Chile. The GMTO is jointly governed by several leading educational and research institutions from the United States, South Korea, and Australia, including the U of A. The U of A comprises two of the fifteen members of the GMTO Board of Directors, and is one of eleven founders and participants. The GMTO will hold all rights, title and interest to and in the telescope. Although the U of A does not have a defined equity interest, as a founder the U of A will receive viewing rights to the telescope in proportion to their voluntary contributions to the project. The U of A has recognized an intangible asset related to the costs incurred during the design, development, and construction/commissioning phases. The U of A has also signed an agreement outlining future capital commitments to the GMTO between June 2016 and June 2022. Capital commitments in the amount of \$22.4 million related to the GMT as of June 30, 2016 are reported in Note 7.F.

The U of A has contributed a total of \$37.6 million as of June 30, 2016. The U of A has been and will 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, 2016, the U of A has received contractual payments related to the project from the GMTO and related partners totaling \$60.0 million. Contractual payments were for projects related to mirror construction and process development and include the acquisition of glass and mold materials, the development of mirror testing systems, design study, and engineering support.

NOTE 13. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE

A. INSURANCE LOSSES

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

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The Special Fund provides payment of workers' compensation benefits. The fund processes payment of claims for injured workers where the employer failed to provide workers' compensation insurance; provides continual workers' compensation benefits for bankrupt self-insured employers; provides partial coverage of workers' compensation benefits for second injury claims (apportionment claims); provides vocational rehabilitation benefits; and provides continuing medical benefits for pre-1973 workers' compensation claims.

The Guaranty Fund provides payment for settlement of covered claims and return of unearned premiums under certain property and casualty insurance contracts of insolvent insurance companies in accordance with A.R.S. Title 20, Chapter 3, Article 6, and contractual obligations under certain life, annuity and disability insurance contracts of insolvent insurance companies in accordance with A.R.S. Title 20, Chapter 3, Article 7. The Guaranty Fund records claims liability when the reported loss is probable and reasonably estimated based on reserves established by either experienced claims adjusters of the Guaranty Fund, by a third party administrator handling claim files, or by actuaries. The claims liability includes an estimate for incurred but not reported claims.

A significant reduction in claims liability was reported by the Guaranty Fund related to workers' compensation at June 30, 2016. The Guaranty Fund assumed administrative responsibilities for payment of insolvent workers' compensation insurance carrier claims from the Special Fund effective July 1, 2015. The primary reasons for the reduction in claims liability were the reassessment of loss reserves estimates after administrative transition and the instituted practice of settling ordinary open claims that can be closed.

To provide funding for the payments of claims, the Guaranty Fund may direct the payment of assessments by member insurers under A.R.S. § 20-666 and A.R.S. § 20-686. Assessments under A.R.S. § 20-666 may not exceed 1% of net direct written premiums by member insurers. Under A.R.S. § 20-686, there are two classes of assessments: Class A assessments that are paid by each member insurer to cover administrative costs and other general expenses; and Class B assessments levied by account and paid by member insurers licensed to write insurance covered by the account, that pay the costs related to an impaired insurer or insolvent insurer pursuant to A.R.S. § 20-685. The total assessments under A.R.S. § 20-686 on a member insurer for each account may not exceed 2% of that member insurer's average annual premium received in the State during the three calendar years preceding the year in which an insurer becomes impaired or insolvent.

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

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund and the Special Fund. As discussed in the above paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Division will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Assessments on gross premium revenues and settlement income primarily fund the Special Fund. To provide funding for the payment of these workers' compensation benefits, the Special Fund may direct the payment of assessments into the State Treasury under A.R.S. § 23-1065(A) (general liability assessment – not to exceed 1.0%) and A.R.S. § 23-1065(F) (apportionment assessment - not to exceed .5%), in a total amount not to exceed 1.5% of all premiums received by private insurance carriers and what would have been paid by self-insured employers if they had been fully insured by an insurance carrier authorized to transact workers compensation insurance during the immediately preceding calendar year. The Special Fund was determined to be actuarially sound as of June 30, 2015 and as a result did not levy an A.R.S. § 23-1065(A) or A.R.S. § 23-1065(F) assessment for calendar year 2016.

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2016. The total estimated loss reserve of \$231.6 million increased by 5.75%, or \$12.6 million, over the prior year estimated loss reserve of \$219.0 million. The total Compensation reserve decreased \$41.9 million due to old inactive claims being closed out prior to the implementation of a new software program. This decrease was offset by a \$51.0 million increase in the Uninsured reserve due to strengthened reserving practices for "lifetime" claims. There were no other major shifts in any of the other award categories. A confidence level of 80% was used in calculating medical and compensation related liabilities. A confidence level of 80% indicates a confidence that the estimated liability will be adequate to cover actual costs 80 out of 100 years. The reserves were discounted at an assumed rate of .7% for the compensation benefits and zero percent for the medical benefits. 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.

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The Special Fund has filed proofs of claim with bankruptcy trustees for bankrupt self-insured employers. Additionally, the Special Fund has filed proofs of claim with ancillary receivers and liquidators regarding the recovery of statutory deposits and other monies for Insurance Carrier insolvencies that the Special Fund was responsible for prior to July 1, 2015. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier and bankrupt self-insured employer deposits 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.

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2015 and June 30, 2016 (expressed in thousands):

Fiscal Year	Beginning Balance	Special Item	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:					
2015	\$ 429,329	\$ -	\$ 79,340	\$ (51,280)	\$ 457,389
2016	457,389	-	65,607	(82,416)	440,580
Industrial Commission Special Fund:					
2015	484,144	(241,491)	577	(24,199)	219,031
2016	219,031	-	23,808	(11,217)	231,622
Insurance Department Guaranty Funds:					
2015	-	241,491	23,007	(12,926)	251,572
2016	251,572	-	(90,780)	(11,874)	148,918

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 Risk Management Fund, Insurance Department Guaranty Funds, and the Industrial Commission Special Fund.

C. ACCUMULATED SICK LEAVE

Sick leave includes any approved period of paid absence granted to 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 \$157.0 million at June 30, 2016.

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D. UNCLAIMED PROPERTY

The State of Arizona’s Uniform Unclaimed Property Act requires the deposit of certain unclaimed assets into a managed agency fund. A total of approximately \$1.3 billion (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at \$39.1 million and mutual funds valued at \$15.5 million. In accordance with A.R.S. § 44-313 and A.R.S. § 44-314, for fiscal year 2016, \$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, \$64.9 million was deposited in the General Fund, and \$1.0 million 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, 2016, \$452.8 million of this liability is reported in the General Fund, because it is the fund to which the property ultimately escheats in Arizona.

E. CONSTRUCTION COMMITMENTS

The ADOT had outstanding commitments under construction contracts of \$1.5 billion at June 30, 2016.

	(in thousands) Remaining Commitments
Construction contracts:	
Rural roadways	\$ 131,992
Small urban roadways	20,657
Urban roadways	26,228
Large urban roadways	80,578
Loop 202 / SM Freeway	890,389
General roadways	125,353
Sub-total	<u>1,275,197</u>
Capital asset replacement and maintenance:	
Loop 202 / SM Freeway	<u>191,153</u>
Total	<u>\$ 1,466,350</u>

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. The 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. Purchases of annuities transfer liabilities for prizes to the insurance company. However, the Lottery may incur liabilities for prizes in the event of a default of an insurance company. Aggregate future payments to prize winners on existing annuities totaled \$47.2 million at June 30, 2016. Approximately \$44.8 million of the total aggregate future payments at June 30, 2016 relate to annuities purchased from five separate insurance companies, of which approximately \$20.9 million relates to a single insurance company.

NOTE 14. TOBACCO SETTLEMENT

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

The State recorded tobacco settlement revenue of \$98.9 million in the fund statements and the government-wide statements in fiscal year 2016. 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

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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, 2016.

NOTE 15. SUBSEQUENT EVENTS

In September 2016, the ASU issued \$130.5 million in System Revenue Bonds, Series 2016B (Series 2016B Bonds) and \$95.7 million in System Revenue Bonds, Series 2016C (Series 2016C Bonds), for the following projects: (1) construction of the Biodesign C building on the Tempe campus, (2) construction of the Student Pavilion facility on the Tempe Campus, (3) renovations to research laboratories, classrooms, buildings and other infrastructure on all of the ASU campuses, (4) Phase III renovations to the Sun Devil Stadium, and (5) pay costs of issuance. The Series 2016B Bonds include both serial and term bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2017 to 2047. The Series 2016C Bonds include both serial and term bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2018 to 2046. The Series 2016B Bonds and the Series 2016C Bonds are subject to optional and mandatory redemption prior to their stated maturity dates pursuant to the debt documents.

In October 2016, the State issued \$119.9 million in Certificates of Participation, Series 2016 (Series 2016 Certificates) to: (1) pay a portion of the purchase option price for certain property and (2) pay costs of issuance. The Series 2016 Certificates include serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2017 to 2024. The Series 2016 Certificates are subject to extraordinary redemption prior to their stated maturity dates pursuant to the debt documents.

In October 2016, the Arizona Department of Transportation issued \$203.1 million in Highway Revenue Refunding Bonds, Series 2016 to: (1) refund, in advance of maturity, Highway Revenue Bonds, Series 2011A and 2013A and (2) pay costs of issuance. The bonds include serial bonds with interest rates of 5.00% and maturity dates ranging from 2017 to 2036. The bonds are subject to optional redemption prior to their stated maturity dates pursuant to the debt documents.

In October 2016, the Arizona Department of Transportation issued \$109.9 million in Transportation Excise Tax Revenue Refunding Bonds, Series 2016 to: (1) refund, in advance of maturity, Transportation Excise Tax Revenue Bonds, Series 2009, Series 2010, and Series 2011 and (2) pay costs of issuance. The bonds include serial bonds with interest rates of 5.00% and maturity dates ranging from 2020 to 2025. The bonds are not subject to redemption prior to their stated maturity dates pursuant to the debt documents.

In October 2016, the Arizona Department of Transportation issued \$90.4 million in Grant Anticipation Refunding Notes, Series 2016 to: (1) refund, in advance of maturity, Grant Anticipation Notes, Series 2011A and (2) pay costs of issuance. The notes include serial notes with interest rates of 5.00% and maturity dates ranging from 2021 to 2026. The notes are not subject to redemption prior to their stated maturity dates pursuant to the debt documents.

In November 2016, the U of A issued \$44.2 million in System Revenue and Revenue Refunding Bonds, Series 2016A (Series 2016A Bonds) and \$142.4 million in System Revenue Bonds, Series 2016B (Series 2016B Bonds), for the following projects: (1) construction of the Health Sciences Innovation Building on the U of A campus, (2) paying off a capital lease associated with the buildings at the U of A Phoenix Biomedical Campus, (3) the purchase and renovation of an approximately 42,600 square foot building near the U of A's campus for various U of A programs, and (4) pay costs of issuance. The Series 2016A Bonds include both serial and term bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2017 to 2040. The Series 2016B Bonds include both serial and term bonds with interest rates ranging from 4.00% to 5.00% and maturity dates ranging from 2020 to 2046. The Series 2016A Bonds and the Series 2016B Bonds are subject to optional and mandatory redemption prior to their stated maturity dates pursuant to the debt documents.

NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

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

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A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Measurement Focus and Basis of Accounting

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

2. Net Assets

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

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

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 and fund 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. Purchases and sales of investment securities are reflected on a trade-date basis. Realized gains and losses are calculated using the average cost for securities sold. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, less an investment management fee.

In addition, investments include Universities' endowment funds totaling \$319.7 million managed by the Foundations. These funds are primarily held in pooled endowment funds managed for the Universities under service contracts with the Foundations and invested in the Foundations' endowment pools.

5. Income Taxes

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

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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 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. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position by the component units that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources increase net position, similar to assets.

9. Endowments

The management of the ASU Foundation and the U of A Foundation endowments is governed by laws in the State of Arizona created under the Arizona Management of Charitable Funds Act.

The ASU Foundation has interpreted State statute as requiring the preservation of the fair value of the original gifts at the gift date of the donor restricted endowment funds. As a result of this interpretation, the ASU Foundation classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The ASU Foundation's investment policies are reviewed periodically. The long-term financial objectives are to produce a relatively predictable and stable payout stream that increases over time at least as fast as the general rate of inflation and to preserve intergenerational equity by achieving growth of the investments at a rate that at least keeps pace with the general rate of inflation, net of spending.

The U of A Foundation endowment payout rate is a percentage (4% of the average fair value at the three previous calendar year-ends) of the fair value of each endowment account, as determined from time to time by the U of A Foundation's Board. The U of A Foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds: the net rate of return earned by each endowment account in each of the five most recent fiscal years; the net real rate of return (as measured by the Higher Education Price Index) earned by the endowment in each of the five most recent fiscal years (i.e., the duration and preservation of the endowment fund); payout rates established by other university endowments as published in the Commonfund and National Association of College and University Business Officers survey; any unusual or extraordinary circumstances impacting the U of A flow of funds from other sources (i.e., tuition revenues, State appropriations, etc.); the extent to which programs benefiting from the payout rate rely on these funds to achieve their goals and objectives; general economic conditions; the possible effect of inflation or deflation; and the expected total return from income and appreciation of investments per the most recent asset allocation study.

The U of A Foundation's goal is to manage endowment assets such that the annual nominal return exceeds the annual "hurdle rate" (the sum of the payout and the endowment fee) so the endowment principal is able to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. The U of A Foundation expects its endowment funds to provide an annual average rate of return of 8.5% with a standard deviation of 10.1% over a 20 year period.

10. 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.

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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.

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 does 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 does not have a formal policy regarding custodial credit risk for investments.

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, 2016 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Guaranteed investment contracts	\$ 59,584	\$ -	\$ 38,477	\$ -	\$ 21,107
Money market mutual funds	1,227	1,227	-	-	-
U.S. agency securities	10,172	-	-	-	10,172
U.S. Treasury securities	29,612	7,701	21,911	-	-
Total	\$ 100,595	\$ 8,928	\$ 60,388	\$ -	\$ 31,279

d. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The WIFA does not have a formal policy regarding credit risk but their investments are in accordance with the master bond indenture. The following table presents the WIFA's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2016 (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A
Guaranteed investment contracts	\$ 59,584	\$ -	\$ 48,957	\$ 10,627
Money market mutual funds	1,227	1,227	-	-
U.S. agency securities	10,172	10,172	-	-
Total	\$ 70,983	\$ 11,399	\$ 48,957	\$ 10,627

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. At June 30, 2016, investments in any one issuer, that were more than 5% of the WIFA's total investments are in Bayerische Landesbank (fair value of \$38.5 million, or 9.9%).

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f. Fair Value Measurement

The WIFA's investments at June 30, 2016, categorized within the fair value hierarchy established by U.S. GAAP, were as follows (expressed in thousands):

Investment by Fair Value Level	June 30, 2016	Fair Value Measurement Using		
		Quoted Prices Is Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. agency securities	\$ 10,172	\$ 10,172	\$ -	\$ -
U.S. Treasury securities	29,612	29,612	-	-
Total	\$ 39,784	\$ 39,784	\$ -	\$ -

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. In addition, the WIFA had \$1,227 invested in money market funds as well as \$59,584 in guaranteed investment contracts that were recorded at cost.

2. Universities-Affiliated Component Units

a. Investment Summary

Investments of the Universities-affiliated component units include the following amounts at June 30, 2016. Investments are stated at fair value (expressed in thousands):

	ASU Foundation	U of A Foundation
Money market funds and cash equivalents	\$ 20,899	\$ -
Domestic/international equity securities and mutual funds	490,510	216,780
U.S. fixed income obligations and mutual funds	149,350	114,926
Absolute return limited partnerships and funds	-	237,115
Other investments	113,671	172,715
Total Investments	\$ 774,430	\$ 741,536

b. Investments Classified in Fair Value Hierarchy

The ASU Foundation and U of A Foundation categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP.

The ASU Foundation has the following recurring fair value measurements as of June 30, 2016 (expressed in thousands):

Investments by Fair Value Level	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Charitable trust receivable	\$ 3,182	\$ -	\$ -	\$ 3,182
Investments	713,561	314,171	-	399,390
Land and buildings held for investment	60,869	-	-	60,869
Assets with limited use	24,617	24,617	-	-
Assets held under split-interest agreements	6,900	6,900	-	-
Total	\$ 809,129	\$ 345,688	\$ -	\$ 463,441
Liabilities				
Assets held for other entities	\$ 128,692	\$ -	\$ -	\$ 128,692
Unrealized swap liability	10,395	-	10,395	-
Total	\$ 139,087	\$ -	\$ 10,395	\$ 128,692

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The U of A Foundation has the following recurring fair value measurements as of June 30, 2016 (expressed in thousands):

Investments by Fair Value Level	June 30, 2016	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Absolute return limited partnerships and funds	\$ 237,115	\$ 44,419	\$ -	\$ 192,696
Domestic/international equity securities and mutual funds	216,780	159,192	-	57,588
U.S. fixed income obligations and mutual funds	114,926	114,926	-	-
Other investments	172,715	55,576	-	117,139
Total	\$ 741,536	\$ 374,113	\$ -	\$ 367,423

Investments categorized as Level 1 of the fair value hierarchy are valued using quoted prices in active markets for identical assets or liabilities which provides the most reliable fair value measurement because it is directly observable to the market. Investments categorized as Level 2 of the fair value hierarchy are valued at other than quoted prices in active markets, which are either directly or indirectly observable. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Investments categorized as Level 3 of the fair value hierarchy are measured using management’s best estimate of fair value, where the inputs included in the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a Net Asset Valuation (NAV) per share, or its equivalent, that can never be redeemed at the NAV or for which redemption at NAV is uncertain due to lock-up periods or other investment restrictions.

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 2016 are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Clean Water Fund	\$ 722,829	\$ 75,057	\$ (263,019)	\$ 534,867
Drinking Water Fund	351,679	72,351	(43,233)	380,797
Total	\$ 1,074,508	\$ 147,408	\$ (306,252)	\$ 915,664

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes, or from special assessments. Most loans have a .30% to 3.00% annual administrative fee. When loans have been repaid, the principal and interest for the pledged loans are placed in restricted accounts used to make bond payments. For loans that are not pledged, the money is placed in a fund from which additional loans are made.

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of the WIFA to the borrowers and interest on the reserve accrues to the borrowers. As of June 30, 2016, the debt service reserve was \$69 thousand and \$2.3 million for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

D. PLEDGES RECEIVABLE

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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Pledges receivable, as of June 30, 2016, include the following (expressed in thousands):

	ASU Foundation
Gross pledges receivable	\$ 185,902
Present value discount	(13,094)
Allowance for uncollectible pledges	(40,316)
Net Pledges Receivable	<u>\$ 132,492</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, 2016 is \$22.8 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 the 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. The ACFFC's net investment in the Nanotechnology facility direct financing lease is \$29.1 million at June 30, 2016.

Pursuant to the ASU Lease Agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of the 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. The ACFFC's net investment in the McAllister (HAV) direct financing lease is \$11.8 million at June 30, 2016.

F. CAPITAL ASSETS

Capital assets for the Universities-affiliated component units for the fiscal year ended June 30, 2016 include the following (expressed in thousands):

	ACFFC	U of A Campus Research Corporation	Downtown Phoenix Student Housing
Buildings and improvements	\$ 174,046	\$ 27,797	\$ 114,233
Furniture, fixtures, and equipment	79,027	5,617	10,664
Total cost or donated value	253,073	33,414	124,897
Less: Accumulated Depreciation	(108,950)	(12,225)	(34,580)
Total Property and Equipment, Net	<u>\$ 144,123</u>	<u>\$ 21,189</u>	<u>\$ 90,317</u>

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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 obligations are not obligations, general, specific, or otherwise, of the State or any other political subdivision, thereof, other than the WIFA.

On December 4, 2014, the WIFA issued \$342.6 million of Water Quality Revenue Refunding Bond series 2014A for the purpose of advance refunding a portion of the 2006 Water Quality Revenue Bonds, 2008 Water Quality Revenue Bonds, 2009 Water Quality Revenue Bonds, 2010 Water Quality Revenue Bonds and the 2012 Water Quality Refunding Bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest in the refunded bonds issues had 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. Two different bank escrow accounts were established, a 2014 account and a 2014/2012 escrow account. The amount outstanding of the defeased bonds, as of June 30, 2016, was \$144.9 million.

The security for the bonds includes a pledge of monies and investments in the accounts held by the Trustee and the Financial Assistance Accounts held for the WIFA by the State Treasurer and all pledged loans.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2016 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2016
Component Units:				
Water Infrastructure Finance Authority	2006-2015	2017-2031	0.20-5.00%	\$ 656,060

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2016 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service		
	Water Infrastructure Finance Authority		
	Principal	Interest	Total
2017	\$ 37,405	\$ 29,522	\$ 66,927
2018	46,625	27,898	74,523
2019	47,545	25,980	73,525
2020	49,725	23,774	73,499
2021	51,900	21,327	73,227
2022-2026	256,635	67,882	324,517
2027-2031	166,225	14,699	180,924
Total	\$ 656,060	\$ 211,082	\$ 867,142

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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b. 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, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year	Due Thereafter
Water Infrastructure Finance Authority:						
Long-term Debt:						
Revenue bonds	\$ 712,305	\$ -	\$ (56,245)	\$ 656,060	\$ 37,405	\$ 618,655
Revenue bond premium	99,314	25	(8,854)	90,485	-	90,485
Total Long-term Debt	811,619	25	(65,099)	746,545	37,405	709,140
Other Long-term Liabilities:						
Compensated absences	110	66	(88)	88	88	-
Total Other Long-term Liabilities	110	66	(88)	88	88	-
Total Long-term Obligations	\$ 811,729	\$ 91	\$ (65,187)	\$ 746,633	\$ 37,493	\$ 709,140

2. Universities-Affiliated Component Units

A summary of bonds payable as of June 30, 2016 include the following (expressed in thousands):

	Final Maturity	Amount
ASU Foundation:		
Series 2014A Tax-Exempt Lease Revenue Bonds	2035	\$ 31,390
Series 2014B Taxable Lease Revenue Bonds	2019	3,610
Series 2014A Revenue Refunding Bonds	2034	39,050
Series 2014B Revenue Refunding Bonds	2016	1,020
Series 2004A Variable Rate Revenue Bonds	2034	22,420
Series 2004B Variable Rate Revenue Bonds	2022	6,005
ACFFC:		
Series 2011 Tax-Exempt Revenue Refunding Bonds	2018	8,525
Series 2009 Revenue Bonds	2024	29,475
Series 2009A Lease Revenue Refunding Bonds	2034	22,955
Series 2009B Lease Revenue Refunding Bonds	2022	6,465
Series 2008 Revenue Bonds	2028	12,715
Series 2008 Revenue Refunding Bonds	2039	139,545
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	34,015
Deferred Cost of Refunding		(150)
Unamortized Bond Premium		(846)
Downtown Phoenix Student Housing:		
Series 2007A&C Revenue Bonds	2042	116,720
Series 2007D Tax-Exempt Revenue Bonds	2042	22,653
Unamortized Bond Discount		(969)

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

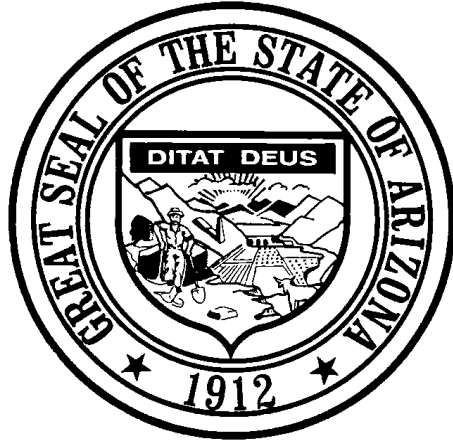
Fiscal Year	ASU Foundation	ACFFC	Downtown Phoenix Student Housing
2017	\$ 2,275	\$ 10,300	\$ 1,025
2018	3,680	10,985	1,245
2019	3,845	11,715	1,480
2020	4,035	9,345	1,735
2021	4,215	9,980	2,000
Thereafter	85,445	200,374	130,919
Total	\$ 103,495	\$ 252,699	\$ 138,404

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H. 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 A.R.S. § 41-2259, the GADA's bonds do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net position of \$12.0 million in the Pledged Collateral Reserve Fund. At June 30, 2016, the total outstanding face value of all bonds issued by the GADA was \$284.6 million.



REQUIRED
SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
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 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMINISTRATION, ARIZONA DEPARTMENT OF			
500 BED MAXIMUM SECURITY	\$ 1,525,447	\$ 1,525,447	\$ 157,418
ADMIN ADJUSTMENT ADULT INFORMATION MANAGEMENT SYSTEM	-	4,609,112	4,609,112
ADMIN ADJUSTMENT AFIS REPLACEMENT ERP	-	15,754,084	15,754,084
ADMIN ADJUSTMENT AUTOMATION AND INFORMATION TECH PROJECTS	-	2,687,643	2,687,643
ADMIN ADJUSTMENT CHILDRENS INFORMATION LIBRARY	-	313,000	313,000
ADMIN ADJUSTMENT E LICENSING DEQ	-	1,864,687	1,864,687
ADMIN ADJUSTMENT IMPLEMENT UPGRADE TAXPAYER ACCTG SYSTEM	-	1,026,562	1,026,562
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	1,051,502	1,051,502
ADMIN ADJUSTMENT STUDENT LONGITUDINAL DATA SYSTEM	-	338,075	338,075
ADMIN ADJUSTMENT UTILITIES	-	574,106	574,106
AFIS COLLECTIONS	7,567,800	7,567,800	7,063,058
AFIS REPLACEMENT ERP	4,197,852	6,580,852	1,036,050
AUTOMATION AND INFORMATION TECH PROJECTS	1,737,922	11,212,922	5,499,870
AUTOMATION PROJECTS GF	2,383,000	2,383,000	2,383,000
BUILDING RENEWAL	3,045,157	3,045,157	2,660,181
BUILDING RENEWAL COSF	9,000,000	9,000,000	2,770,458
BUILDING RENEWAL COST	6,815,835	6,815,835	2,742,382
BUILDING RENEWAL GF	12,807,025	12,807,025	4,819,437
CAPITOL MALL FIRE SYSTEM REPLACE	6,764	6,764	6,764
CAPITOL MALL SECURITY SYSTEM	709,953	709,953	696,304
CHILD SAFETY	8,403,900	8,403,900	8,403,900
COP DEBT SERVICE 2009 3RD SS CH 6 SEC 32	60,104,300	60,104,300	60,104,300
COP DEBT SERVICE 2009 6TH SS CH 4 SEC 2A	24,010,300	24,010,300	24,010,300
COUNTY ATTORNEY IMMIGRATION ENFORCEMENT	332,755	332,755	-
COUNTY SERVICES DISTRIBUTION	5,500,500	5,500,500	5,500,500
E-LICENSING DEQ	5,000,000	5,000,000	-
ESSENTIAL COUNTY SERVICES	500,000	500,000	500,000
GOVERNMENT TRANSFORMATION OFFICE	1,000,000	1,000,000	824,610
OPERATING LUMP SUM APPROPRIATION	23,736,400	23,702,500	21,770,227
RELIEF	-	375	375
RELOCATION	176,995	176,995	80,276
SOUTHWEST DEFENSE CONTRACTS	25,000	25,000	25,000
STATE FED SECURITY IT STANDARDS DES	936,400	936,400	487,778
STUDENT LONGITUDINAL DATA SYSTEM	7,000,000	7,000,000	7,000,000
SWEEPS	3,775,000	3,775,000	3,775,000
UTILITIES	8,275,600	8,275,600	6,879,367
WHITE MOUNTAIN APACHE TRIBES WATER RIGHT	2,000,000	2,000,000	-
ADMINISTRATIVE HEARINGS, OFFICE OF			
OPERATING LUMP SUM APPROPRIATION	862,500	861,700	861,700
AGRICULTURE, ARIZONA DEPARTMENT OF			
ADMIN ADJUSTMENT ANIMAL DAMAGE CONTROL	-	14,941	14,941
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	65,324	65,324
AG CONSULTING AND TRAINING PARI-MUTUEL	128,500	128,500	128,497
AGRICULTURAL EMPLOYMENT RELATIONS BOARD	23,300	23,300	23,300
ANIMAL DAMAGE CONTROL	65,000	65,000	46,897
OFFSITE NUCLEAR EMERGENCY RESPONSE PLANS	-	198,434	198,434
OPERATING LUMP SUM APPROPRIATION	7,884,600	7,849,000	7,739,990
RED IMPORTED FIRE ANT	23,200	23,200	23,200
AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM			
ACA ADULT EXPANSION	197,183,800	424,683,800	403,521,565
ADMIN ADJUSTMENT ACA ADULT EXPANSION	-	6,518,930	6,518,930
ADMIN ADJUSTMENT ALTCS SERVICES	-	42,223,212	42,223,212
ADMIN ADJUSTMENT CHILDRENS REHABILITATIVE SERVICES	-	2,929,866	2,929,866
ADMIN ADJUSTMENT CHIP - SERVICES	-	403,740	403,740
ADMIN ADJUSTMENT DISPROPORTIONATE SHARE PAYMENTS	-	9,239,800	9,239,800
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	3,465,533	3,465,533
ADMIN ADJUSTMENT PROP 204 AHCCCS ADMINISTRATION	-	361,812	361,812
ADMIN ADJUSTMENT PROP 204 DES ELIGIBILITY	-	9,995,210	9,995,210
ADMIN ADJUSTMENT PROPOSITION 204 SERVICES	-	35,416,139	35,416,139
ADMIN ADJUSTMENT TRADITIONAL MEDICAID SERVICES	-	122,383,864	122,383,864

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

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STATE OF ARIZONA
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 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ALTCS SERVICES	1,311,671,000	1,323,671,000	1,239,945,702
CHILDRENS REHABILITATIVE SERVICES	234,866,700	266,339,100	250,450,501
CHIP - SERVICES	6,295,200	6,295,200	2,050,724
DES ELIGIBILITY	54,874,500	95,874,500	72,084,454
DISPROPORTIONATE SHARE PAYMENTS	5,087,100	5,087,100	-
DSH - VOLUNTARY	18,784,700	38,859,700	38,855,107
GRADUATE MEDICAL EDUCATION	157,312,000	186,539,086	163,725,884
OPERATING LUMP SUM APPROPRIATION	77,874,700	84,375,000	78,107,577
PROP 204 AHCCCS ADMINISTRATION	6,863,900	16,294,400	11,200,408
PROP 204 DES ELIGIBILITY	38,358,700	44,358,700	38,269,396
PROPOSITION 204 SERVICES	2,202,141,800	2,326,463,900	2,252,056,486
RURAL HOSPITAL REIMBURSEMENT	22,650,000	22,650,000	21,988,610
SAFETY NET CARE POOL	137,000,000	137,000,000	118,584,650
TRADITIONAL MEDICAID SERVICES	3,698,368,600	3,767,663,300	3,584,122,580
ARIZONA STATE UNIVERSITY			
BIOMEDICAL INFORMATICS	2,746,600	2,722,400	2,722,400
DOWNTOWN PHOENIX CAMPUS	28,946,400	20,217,500	20,217,500
OPERATING LUMP SUM APPROPRIATION - MAIN	198,159,500	280,500,800	280,500,800
OPERATING LUMP SUM APPROPRIATION - EAST	21,339,100	26,995,900	26,995,900
OPERATING LUMP SUM APPROPRIATION - WEST	28,890,700	38,818,900	38,818,900
RESEARCH INFRASTRUCTURE LEASE PURCHASE PAYMENT	-	10,509,100	10,509,100
RESEARCH INFRASTRUCTURE LEASE PURCHASE PAYMENT-POLY	-	917,000	912,439
ATTORNEY GENERAL - DEPARTMENT OF LAW			
ADMIN ADJUSTMENT CAPITAL POSTCONVICTION PROSECUTION	-	88	88
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	296,091	296,091
ADMIN ADJUSTMENT STATE GRAND JURY	-	1,700	1,700
CAPITAL POSTCONVICTION PROSECUTION	800,100	799,400	769,382
ICAC APPROPRIATION	-	1,800,000	-
LEGAL ARIZONA WORKERS ACT	100,000	100,000	-
MILITARY INSTALLATION/PLANNING	3,831	3,831	-
MILITARY INSTALLATION-PLANNING	5,000	90,000	89,107
OPERATING LUMP SUM APPROPRIATION	36,939,400	36,840,700	36,156,134
SOUTHERN ARIZONA DRUG ENFORCEMENT	1,200,000	1,200,000	1,198,575
STATE GRAND JURY	181,100	181,100	179,670
TOBACCO ENFORCEMENT	84,900	84,900	68,453
AUDITOR GENERAL			
INDEPENDENT CONSULTANT - CHILD WELFARE	92,694	92,694	18,245
OPERATING LUMP SUM APPROPRIATION	24,011,060	23,947,960	18,586,354
CHARTER SCHOOLS, STATE BOARD FOR			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	22,008	22,008
OPERATING LUMP SUM APPROPRIATION	1,209,200	1,200,900	1,024,392
CHILD SAFETY, DEPARTMENT OF			
ADMIN ADJUSTMENT DCS ADOPTION SERVICES	-	16,549,690	16,549,690
ADMIN ADJUSTMENT DCS ATTORNEY GENERAL LEGAL SERVICES	-	139,487	139,487
ADMIN ADJUSTMENT DCS CHILD CARE SUBSIDY	-	10,586,582	10,586,582
ADMIN ADJUSTMENT DCS FOSTER CARE PLACEMENT	-	5,194,680	5,194,680
ADMIN ADJUSTMENT DCS GENERAL COUNSEL	-	10	10
ADMIN ADJUSTMENT DCS GRANDPARENT STIPENDS	-	170,427	170,427
ADMIN ADJUSTMENT DCS INDEPENDENT LIVING MAINTENANCE	-	1,986,900	1,986,900
ADMIN ADJUSTMENT DCS IN-HOME PREVENTIVE SUPPORT SERVICES	-	2,822,320	2,822,320
ADMIN ADJUSTMENT DCS INSPECTIONS BUREAU	-	329,160	329,160
ADMIN ADJUSTMENT DCS OFFICE OF CHILD WELFARE INVESTIGATIONS	-	1,415,624	1,415,624
ADMIN ADJUSTMENT DCS OPERATING LUMP SUM	-	2,795,060	2,795,060
ADMIN ADJUSTMENT DCS OUT-OF-HOME SUPPORT SERVICES	-	11,245,570	11,245,570
ADMIN ADJUSTMENT DCS OVERTIME	-	712,880	712,880
ADMIN ADJUSTMENT DCS PERMANENT GUARDIAN SUBSIDY	-	997,060	997,060
ADMIN ADJUSTMENT DCS RETENTION PAY	-	15,000	15,000
ADMIN ADJUSTMENT DCS TRAINING RESOURCES	-	4,950,071	4,950,071
ADMIN ADJUSTMENT EMERGENCY AND RESIDENTIAL PLACEMENT	-	13,209,470	13,209,470
BACKLOG PRIVATIZATION	-	2,700,000	-
DCS ADOPTION SERVICES	206,301,000	205,101,000	188,283,823

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

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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DCS ATTORNEY GENERAL LEGAL SERVICES	19,758,000	21,515,600	20,503,269
DCS CHILD CARE SUBSIDY	39,753,600	49,990,600	45,101,360
DCS FOSTER CARE PLACEMENT	59,081,300	64,381,300	55,098,257
DCS GENERAL COUNSEL	157,300	141,300	94,957
DCS GRANDPARENT STIPENDS	1,000,000	900,000	657,366
DCS INDEPENDENT LIVING MAINTENANCE	3,469,300	4,185,600	4,037,169
DCS IN-HOME PREVENTIVE SUPPORT SERVICES	33,755,100	38,255,100	16,958,935
DCS INSPECTIONS BUREAU	2,500,400	2,486,500	2,414,010
DCS INTENSIVE FAMILY SERVICES	8,500,000	8,500,000	8,495,465
DCS INTERNET CRIMES AGAINST CHILDREN	350,000	350,000	144,827
DCS OFFICE OF CHILD WELFARE INVESTIGATIONS	10,771,200	10,706,600	9,073,001
DCS OPERATING LUMP SUM	209,967,100	213,601,700	188,033,451
DCS OUT-OF-HOME SUPPORT SERVICES	136,329,900	174,163,700	151,932,998
DCS OVERTIME	8,400,000	12,298,500	11,533,077
DCS PERMANENT GUARDIAN SUBSIDY	12,215,300	11,895,300	10,759,088
DCS RECORDS RETENTION STAFF	597,400	595,600	535,261
DCS RETENTION PAY	1,707,000	630,600	514,147
DCS TRAINING RESOURCES	5,150,000	5,150,000	4,037,822
EMERGENCY AND RESIDENTIAL PLACEMENT	76,306,300	103,006,300	94,195,466
COMMISSION OF AFRICAN-AMERICAN AFFAIRS			
ADMIN ADJUSTMENT OPERATING LUMP SUM	-	5,286	5,286
OPERATING LUMP SUM	125,000	125,000	121,451
CORPORATION COMMISSION			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	950	950
OPERATING LUMP SUM APPROPRIATION	660,000	664,300	657,681
RAILROAD WARNING SYSTEMS	47,510	47,510	-
CORRECTIONS, STATE DEPARTMENT OF			
ADMIN ADJUSTMENT INMATE HEALTH CARE CONTRACTED SERVICES	-	5,219,040	5,219,040
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	7,905,072	7,905,072
ADMIN ADJUSTMENT PRIVATE PRISON PER DIEM	-	6,046,862	6,046,862
ASPC YUMA CHEYENNE REPAIRS	318,492	318,492	247,437
BUILDING RENEWAL FUND EXPENDITURES	1,704,804	1,704,804	1,343,786
CAPITAL OUTLAY APPROPRIATION	11,370,148	11,370,148	6,306,972
INMATE HEALTH CARE CONTRACTED SERVICES	130,503,900	135,703,900	125,751,884
LEAP YEAR	929,100	929,100	929,099
OPERATING LUMP SUM APPROPRIATION	780,245,100	782,721,900	774,136,440
PRIVATE PRISON PER DIEM	126,022,400	118,022,400	117,609,335
RELIEF	-	6,948	6,948
SWEEPS	1,500,000	1,500,000	1,500,000
COURT OF APPEALS DIVISION I			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION - DIV I	-	50,269	50,269
OPERATING LUMP SUM APPROPRIATION - DIV I	10,039,900	9,988,800	9,965,365
COURT OF APPEALS DIVISION II			
ADMIN ADJUSTMENT OPERATING LUMP SUM-DIVISION II	-	2,015	2,015
OPERATING LUMP SUM-DIVISION II	4,340,300	4,326,700	4,326,699
DEAF AND BLIND, ARIZONA SCHOOLS FOR THE			
ADMIN ADJUSTMENT ADMIN-STATEWIDE	-	109,804	109,804
ADMIN ADJUSTMENT PHOENIX DAY SCHOOL FOR THE DEAF	-	599,835	599,835
ADMIN ADJUSTMENT PRESCHOOL-OUTREACH PROGRAMS	-	29,751	29,751
ADMIN ADJUSTMENT REGIONAL COOPERATIVES	-	199,188	199,188
ADMIN ADJUSTMENT SCHOOL BUS REPLACEMENT	-	651,501	651,501
ADMIN ADJUSTMENT TUCSON CAMPUS	-	1,116,190	1,116,190
ADMIN-STATEWIDE	4,209,400	4,152,100	4,105,394
PHOENIX DAY SCHOOL FOR THE DEAF	4,151,900	4,115,641	3,678,145
PRESCHOOL-OUTREACH PROGRAMS	1,516,400	1,493,855	1,425,955
REGIONAL COOPERATIVES	832,800	821,900	802,181
SCHOOL BUS REPLACEMENT	738,000	738,000	458,497
TUCSON CAMPUS	10,353,600	10,274,904	9,712,316
ECONOMIC SECURITY, DEPARTMENT OF			
ADMIN ADJUSTMENT ADULT SERVICES	-	1,514,171	1,514,171
ADMIN ADJUSTMENT ATTORNEY GENERAL LEGAL SERVICES	-	1,650,362	1,650,362

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

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STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	-	3,068,461	3,068,461
ADMIN ADJUSTMENT CASE MANAGEMENT-STATE ONLY	-	1,566,711	1,566,711
ADMIN ADJUSTMENT CASE MANAGEMENT-TITLE XIX	-	9,598,217	9,598,217
ADMIN ADJUSTMENT COMMUNITY AND EMERGENCY SERVICES	-	232,559	232,559
ADMIN ADJUSTMENT COORDINATED HOMELESS PROGRAM	-	35,379	35,379
ADMIN ADJUSTMENT COORDINATED HUNGER	-	455,806	455,806
ADMIN ADJUSTMENT COUNTY PARTICIPATION	-	794,180	794,180
ADMIN ADJUSTMENT DCS SPECIAL SUPPLEMENTAL APPROPRIATION	-	21,000,000	21,000,000
ADMIN ADJUSTMENT DES OPERATING LUMP SUM	-	35,276,165	35,276,165
ADMIN ADJUSTMENT DOMESTIC VIOLENCE PREVENTION	-	947,200	947,200
ADMIN ADJUSTMENT HOME AND COMMUNITY SERVICES-STATE ONLY	-	4,102,449	4,102,449
ADMIN ADJUSTMENT HOME AND COMMUNITY BASED SERVICES-TITLE XIX	-	50,881,528	50,881,528
ADMIN ADJUSTMENT HOMELESS CAPITAL GRANT	-	237,672	237,672
ADMIN ADJUSTMENT INDEPENDENT LIVING REHABILITATION SERVICES	-	1,000	1,000
ADMIN ADJUSTMENT INSTITUTIONAL SERVICES-TITLE XIX	-	3,188,430	3,188,430
ADMIN ADJUSTMENT JOBS	-	1,169,981	1,169,981
ADMIN ADJUSTMENT MEDICAL SERVICES-TITLE XIX	-	7,394,863	7,394,863
ADMIN ADJUSTMENT REHABILITATION SERVICES	-	6,000	6,000
ADMIN ADJUSTMENT STATE FUNDED LONG-TERM CARE SERVICES	-	2,198,011	2,198,011
ADMIN ADJUSTMENT TANF CASH BENEFITS	-	1,635,180	1,635,180
ADMIN ADJUSTMENT WORKFORCE INVESTMENT ACT SERVICES	-	6,201,362	6,201,362
ADULT SERVICES	7,924,100	7,924,100	6,897,967
AGENCY OPERATING LUMP SUM APPROPRIATION	1,000,000	1,000,000	-
ATTORNEY GENERAL LEGAL SERVICES	11,042,800	10,969,700	9,931,740
AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	20,876,100	21,757,600	19,942,631
CASE MANAGEMENT-STATE ONLY	3,928,600	3,912,700	3,785,906
CASE MANAGEMENT-TITLE XIX	67,549,200	72,679,000	69,970,345
CASH TRANSFER TO GENERAL FUND	34,814,703	34,814,703	34,814,703
CHILD CARE SUBSIDY	98,396,600	98,396,600	84,181,496
COMMUNITY AND EMERGENCY SERVICES	3,724,000	3,724,000	3,389,279
COORDINATED HOMELESS PROGRAM	2,522,600	2,522,600	2,285,891
COORDINATED HUNGER	1,754,600	1,754,600	1,435,837
COUNTY PARTICIPATION	6,740,200	7,190,200	4,030,639
DCS SPECIAL SUPPLEMENTAL APPROPRIATION	-	41,000,000	20,000,000
DDD OPERATING LUMP SUM	62,256,300	72,618,100	61,410,127
DES OPERATING LUMP SUM	150,372,200	153,459,900	137,568,839
DOMESTIC VIOLENCE PREVENTION	9,903,700	9,903,700	9,266,489
HOME AND COMMUNITY BASED SERVICES-STATE ONLY	21,296,700	20,323,200	14,393,916
HOME AND COMMUNITY BASED SERVICES-TITLE XIX	1,141,483,600	1,187,283,100	1,052,612,266
INDEPENDENT LIVING REHABILITATION SVCS	166,000	166,000	166,000
INSTITUTIONAL SERVICES-TITLE XIX	27,235,900	29,706,200	26,515,008
JOBS	11,894,700	11,894,700	8,833,680
LOAN FOR REIMBURSEMENT GRANTS	-	35,000,000	-
MEDICAL CLAWBACK	2,928,700	2,928,700	2,928,700
MEDICAL SERVICES-TITLE XIX	199,029,600	201,993,500	198,806,963
REHABILITATION SERVICES	3,594,400	4,594,400	4,176,805
STATE FUNDED LONG-TERM CARE SERVICES	26,554,800	27,554,000	26,610,045
TANF CASH BENEFITS	44,999,400	31,594,400	28,299,125
TRIBAL PASS-THRU FUNDING	4,680,300	4,680,300	4,680,300
WORKFORCE INVESTMENT ACT SERVICES	51,654,600	51,654,600	32,903,204
EDUCATION, BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM	-	56,237	56,237
OPERATING LUMP SUM	1,325,200	1,325,200	1,139,025
EDUCATION, DEPARTMENT OF			
ACHIEVEMENT TESTING	9,423,600	9,422,400	9,422,400
ADDITIONAL FUNDING	-	50,000,000	50,000,000
ADDITIONAL STATE AID-1 PERCENT CAP	7,380,300	7,380,300	7,380,300
ADDITIONAL STATE AID TO SCHOOLS	359,303,700	359,303,700	359,303,700
ADMIN ADJUSTMENT BASIC STATE AID ENTITLEMENT	-	6,179,264	6,179,264
ADMIN ADJUSTMENT OTHER STATE AID TO DISTRICTS	-	147,686	147,686
ADULT EDUCATION	4,500,000	4,500,000	4,500,000

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

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STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
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 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ALTERNATIVE TEACHER DEVELOPMENT PROGRAM	500,000	500,000	500,000
ARIZONA STRUCTURED ENGLISH IMMERSION	4,960,400	4,960,400	4,960,400
BASIC STATE AID DEFERRED PAYMENT	-	930,727,700	930,638,568
BASIC STATE AID ENTITLEMENT	2,394,233,000	2,470,981,400	2,470,663,047
EMPOWERMENT SCHOLARSHIP ACCOUNT	33,938	33,938	17,518
ENGLISH LEARNER ADMINISTRATION	6,516,800	6,507,900	6,366,589
ENGLISH LEARNER TEACHER	477,154	477,154	238,791
JTED SOFT CAPITAL AND EQUIPMENT	1,000,000	1,000,000	1,000,000
K-3 READING	39,917,300	39,917,300	39,917,300
OPERATING LUMP SUM APPROPRIATION-ADMIN	8,663,900	8,638,400	8,634,653
OTHER STATE AID TO DISTRICTS	983,900	983,900	82,152
SCHOOL SAFETY PROGRAM	3,841,169	3,841,169	2,469,661
SPECIAL EDUCATION FUND	32,242,100	32,226,700	32,211,300
STATE BLOCK GRT FOR VOCATIONAL EDUCATION	11,576,300	11,576,300	11,576,300
SWEEPS	1,600,000	1,600,000	1,576,314
TECHNOLOGY-BASED LANGUAGE DEVELOPMENT	300,000	300,000	-
TECHNOLOGY-BASED LANGUAGE DEVELOPMENT AND LITERACY PROGRAM	-	246,800	-
TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND	-	160,000	-
EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF			
ADEM MATCHING FUND	1,540,900	1,540,900	1,540,900
ADMIN ADJUSTMENT ADMINISTRATION	-	14,368	14,368
ADMIN ADJUSTMENT EMERGENCY MANAGEMENT	-	1,016	1,016
ADMIN ADJUSTMENT MILITARY AFFAIRS	-	2,629	2,629
ADMIN ADJUSTMENT MILITARY INSTALLATION FUND DEP ADMINISTRATION	1,806,200	1,813,100	1,791,825
DISASTER DECLARATION	1,782,086	5,782,086	3,700,000
EMERGENCY MANAGEMENT	729,500	729,500	729,273
FEBRUARY 2005 WINTER STORMS	49,785	49,785	-
HAZARD MATERIALS CONTINGENCY	1,897	1,897	-
JANUARY 2010 WINTER STORM	40,484	40,484	-
MILITARY AFFAIRS	1,328,300	1,328,300	1,286,775
MILITARY AFFAIRS COMMISSION	33,683	123,683	59,624
NUCLEAR EMERGENCY MANAGEMENT FUND-GF TSF	-	633,196	633,196
NUCLEAR EMERGENCY MGMT FD-BUCKEYE GF TRF	-	69,909	69,909
NUCLEAR EMERGENCY MGMT FD-MARICOPA-GF TF	-	682,808	682,808
SCHULTZ FIRE POST-FIRE FLOOD	64,261	64,261	-
SERVICE CONTRACTS	1,275,462	2,022,162	1,270,394
SUMMER 2006 MONSOONS AND FLOODING	158,920	158,920	158,920
ENVIRONMENTAL QUALITY, DEPARTMENT OF			
OPERATING LUMP SUM APPROPRIATION	13,410,100	13,506,500	458,936
EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	78	78
OPERATING LUMP SUM APPROPRIATION	188,600	189,000	187,280
EQUALIZATION, STATE BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	18,291	18,291
OPERATING LUMP SUM APPROPRIATION	641,800	642,800	525,368
EXECUTIVE CLEMENCY, BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	16,410	16,410
OPERATING LUMP SUM APPROPRIATION	958,600	956,000	892,656
FINANCIAL INSTITUTIONS, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	12,575	12,575
OPERATING LUMP SUM APPROPRIATION	3,020,200	3,008,000	2,904,295
FIRE, BUILDING AND LIFE SAFETY, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	23,680	23,680
FIRE SCHOOL	174,200	174,200	167,895
OPERATING LUMP SUM APPROPRIATION	2,031,100	2,027,800	2,005,684
FORESTER, OFFICE OF THE STATE			
ADMIN ADJUSTMENT HAZARDOUS VEGETATION REMOVAL	-	336,872	336,872
ADMIN ADJUSTMENT INMATE FIRE CREWS	-	38,353	38,353
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	105,324	105,324
ENVIRONMENTAL COUNTY GRANTS	250,000	250,000	250,000

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

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STATE OF ARIZONA
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 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
FIRE SUPPRESSION SLI	1,000,000	1,000,000	1,000,000
GENERAL FUND TRSF TO FIRE SUPPRESSION	-	3,000,000	3,000,000
HAZARDOUS VEGETATION REMOVAL	1,350,000	1,350,000	685,396
INMATE FIRE CREWS	695,700	691,000	629,202
OPERATING LUMP SUM APPROPRIATION	2,726,100	2,868,000	2,699,819
GAMING, DEPARTMENT OF			
ADMIN ADJUSTMENT ARIZONA BREEDERS AWARD	-	14,906	14,906
COUNTY FAIR LIVESTOCK AND AGRICULTURAL	1,779,500	1,779,500	1,779,500
GENERAL ACCOUNTING OFFICE			
EQUALIZATION AID - COCHISE	4,332,800	4,332,800	4,332,800
EQUALIZATION AID - GRAHAM	14,538,800	14,538,800	14,538,800
EQUALIZATION AID - NAVAJO	5,849,400	5,849,400	5,849,400
OPERATING STATE AID - COCHISE	5,206,000	5,206,000	5,206,000
OPERATING STATE AID - COCONINO	1,771,200	1,771,200	1,771,200
OPERATING STATE AID - GILA	368,100	368,100	368,100
OPERATING STATE AID - GRAHAM	2,175,600	2,175,600	2,175,600
OPERATING STATE AID - MOHAVE	1,524,000	1,524,000	1,524,000
OPERATING STATE AID - NAVAJO	1,582,100	1,582,100	1,582,100
OPERATING STATE AID - PINAL	1,903,500	1,903,500	1,903,500
OPERATING STATE AID - SANTA CRUZ	57,300	57,300	57,300
OPERATING STATE AID - YAVAPAI	890,300	890,300	890,300
OPERATING STATE AID - YUMA LA PAZ	2,702,500	2,702,500	2,702,500
RURAL COUNTY REIMBURSEMENT SUBSIDY	1,273,800	1,273,800	1,273,800
STEM AND WORKFORCE PROGRAM STATE AID - COCHISE	1,150,000	1,150,000	1,150,000
STEM AND WORKFORCE PROGRAM STATE AID - COCONINO	423,200	423,200	423,200
STEM AND WORKFORCE PROGRAM STATE AID - GILA	160,900	160,900	160,900
STEM AND WORKFORCE PROGRAM STATE AID - GRAHAM	569,500	569,500	569,500
STEM AND WORKFORCE PROGRAM STATE AID - MOHAVE	577,700	577,700	577,700
STEM AND WORKFORCE PROGRAM STATE AID - NAVAJO	345,500	345,500	345,500
STEM AND WORKFORCE PROGRAM STATE AID - PINAL	96,500	96,500	96,500
STEM AND WORKFORCE PROGRAM STATE AID - YAVAPAI	805,700	805,700	805,700
STEM AND WRKFORCE PROGRAM STATE AID - SANTA CRUZ	53,100	53,100	53,100
STEM AND WRKFORCE PROGRAM STATE AID - YUMA/LAPAZ	867,300	867,300	867,300
SWEEPS	5,400,000	5,400,000	5,400,000
WOOLSEY FLOOD DISTRICT	-	95,028	95,028
GEOLOGICAL SURVEY, ARIZONA			
OPERATING LUMP SUM APPROPRIATION	941,700	941,000	936,907
GOVERNOR, OFFICE OF THE			
OPERATING LUMP SUM APPROPRIATION - OSPB	2,753,816	2,753,816	2,092,378
OPERATING LUMP SUM APPROPRIATION	8,885,326	8,854,226	7,996,865
HEALTH SERVICES, DEPARTMENT OF			
ADMIN ADJUSTMENT AGENCYWIDE OPERATING LUMP SUM APPN	-	516,002	516,002
ADMIN ADJUSTMENT AIDS REPORTING AND SURVEILLANCE	-	6,384	6,384
ADMIN ADJUSTMENT ARIZONA STATE HOSPITAL - OPERATING	-	1,173,662	1,173,662
ADMIN ADJUSTMENT ASH - SEXUALLY VIOLENT PERSONS	-	291,054	291,054
ADMIN ADJUSTMENT BREAST AND CERVICAL CANCER SCREENING	-	416,969	416,969
ADMIN ADJUSTMENT COUNTY TUBERCULOSIS PROVIDER CARE - CTL	-	86,605	86,605
ADMIN ADJUSTMENT HIGH RISK PERINATAL SERVICES	-	539,449	539,449
ADMIN ADJUSTMENT MENTAL HEALTH FIRST AID	-	39,412	39,412
ADMIN ADJUSTMENT NON MEDICAID SERIOUSLY MENTAL ILL SVS	-	4,605,605	4,605,605
ADMIN ADJUSTMENT NON RENAL DISEASE MANAGEMENT	-	56,270	56,270
ADMIN ADJUSTMENT POISON CONTROL CENTER FUNDING	-	333,173	333,173
ADMIN ADJUSTMENT SUPPORTED HOUSING	-	104,621	104,621
ADULT CYSTIC FIBROSIS	105,200	105,200	105,200
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	34,932,900	34,916,297	32,843,932
AIDS REPORTING AND SURVEILLANCE	1,000,000	1,000,000	990,127
ALZHEIMER DISEASE RESEARCH	125,000	125,000	125,000
ARIZONA STATE HOSPITAL - OPERATING	58,916,200	58,639,796	56,987,290
ASH - SEXUALLY VIOLENT PERSONS	9,731,700	9,682,515	9,136,262
ASH - CORRECTIVE ACTION PLAN SUPPLEMENTAL	398,060	398,060	-
ASH - RESTORATION TO COMPETENCY	900,000	896,792	896,792

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

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STATE OF ARIZONA
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 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
BREAST AND CERVICAL CANCER SCREENING	1,369,400	1,369,400	984,408
COUNTY TUBERCULOSIS PROVIDER CARE - CTL	590,700	590,700	534,345
CRISIS SERVICES	14,141,100	14,141,100	13,926,054
HIGH RISK PERINATAL SERVICES	2,093,400	2,093,400	1,700,338
MEDICAID BEHAVIORAL HEALTH - PROP 204	103,420,512	103,420,512	103,420,512
MEDICAID BEHAVIORAL HEALTH - TRADITIONAL	231,633,874	231,633,874	231,633,874
MEDICAID BEHAVIORAL HEALTH - COMPREHENSIVE AND DENTAL	54,380,434	54,380,434	54,380,434
MEDICAID INSURANCE PREMIUM PAYMENTS	8,715,032	8,715,032	8,715,032
MEDICARE CLAWBACK PAYMENTS	14,228,600	14,228,600	14,228,600
MIDDLE AND HIGH SCHOOL PREVENTION ED PRG	282,243	282,243	272,504
NON MEDICAID SERIOUSLY MENTAL ILL SVS	78,846,900	78,846,900	78,279,391
NON RENAL DISEASE MANAGEMENT	198,000	198,000	46,372
ONE TIME ELECTRONIC MED RECORDS START UP	1,161,992	1,161,992	658,702
POISON CONTROL CENTER FUNDING	990,000	990,000	828,173
PRESCRIPTION DRUG REBATE	-	8,824,500	-
PROP 204 ADMINISTRATION TXIX MATCH	2,011,048	2,011,048	2,011,048
REG HA DISPENSERS-AUDIOL PATHOL	62,243	62,243	-
RELIEF	-	157	157
SUPPORTED HOUSING	5,324,800	5,324,800	5,207,197
TANF PERINATAL SERVICES	47,270	47,270	-
HISTORICAL SOCIETY OF ARIZONA, PRESCOTT			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	90,619	90,619
OPERATING LUMP SUM APPROPRIATION	826,300	825,800	807,417
HISTORICAL SOCIETY, ARIZONA			
ARIZONA EXPERIENCE MUSEUM	428,300	428,300	428,300
FIELD SERVICES AND GRANTS	66,000	66,000	66,000
OPERATING LUMP SUM APPROPRIATION	2,117,300	2,118,500	2,118,500
PAPAGO PARK MUSEUM	544,400	544,400	544,400
HOUSE OF REPRESENTATIVES			
OPERATING LUMP SUM APPROPRIATION	20,828,833	20,746,133	13,683,013
INDEPENDENT REDISTRICTING COMMISSION			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	39,554	39,554
OPERATING EXPENDITURES	1,161,155	1,161,155	626,441
OPERATING LUMP SUM APPROPRIATION	1,115,300	1,115,300	1,093,927
INDIAN AFFAIRS, ARIZONA COMMISSION OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	641	641
OPERATING LUMP SUM APPROPRIATION	56,900	57,400	56,945
INSURANCE, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	33,043	33,043
OPERATING LUMP SUM APPROPRIATION	5,883,300	5,867,400	5,036,423
JOINT LEGISLATIVE BUDGET COMMITTEE			
OPERATING LUMP SUM APPROPRIATION	5,809,628	5,807,528	2,261,802
JUVENILE CORRECTIONS, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	311,857	311,857
OPERATING LUMP SUM APPROPRIATION	40,877,100	40,585,300	38,957,449
LAND DEPARTMENT, STATE			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	1,642	1,642
CAP USER FEES	737,800	737,800	737,748
DUE DILIGENCE FUND	500,000	500,000	-
NATURAL RESOURCE CONSERVATION DISTRICTS	390,000	390,000	390,000
OPERATING LUMP SUM APPROPRIATION	11,446,200	11,392,700	11,274,058
LEGISLATIVE COUNCIL			
OMBUDSMAN-CITIZENS AID OFFICE	978,531	975,539	803,908
OPERATING LUMP SUM APPROPRIATION	11,825,203	11,812,595	5,439,845
LIQUOR, LICENSES, AND CONTROL, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	9,499	9,499
IMPROVEMENT OF DATA PROCESSING SYSTEM	41,766	41,766	41,766
LICENSING SYSTEM - REPLACEMENT	851,780	851,780	30,582
OPERATING LUMP SUM APPROPRIATION	2,962,500	2,955,300	2,861,665
MEDICAL STUDENT LOANS, BOARD OF			
MEDICAL STUDENT FINANCIAL ASSIST FY06-07	346,555	346,555	-

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STATE OF ARIZONA
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
MEDICAL STUDENT FINANCIAL ASSIST FY08-09	309,800	309,800	-
MINE INSPECTOR, STATE			
ABANDONED MINES SAFETY FUND DEPOSIT	194,700	194,700	186,311
ADMIN ADJUSTMENT ABANDONED MINES SAFETY FUND DEPOSIT	-	2,457	2,457
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	16,172	16,172
OPERATING LUMP SUM APPROPRIATION	1,020,900	1,020,500	975,651
NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA			
OPERATING LUMP SUM APPROPRIATION	129,200	126,600	121,267
NORTHERN ARIZONA UNIVERSITY			
MEDICAL RESEARCH FND BIO TECHNOLOGY	-	3,000,000	3,000,000
NAU - YUMA	2,430,000	2,428,600	2,428,600
OPERATING LUMP SUM APPROPRIATION	56,770,800	118,200,000	118,200,000
RESEARCH INFRASTRUCTURE LEASE-PURCH PYMT	-	5,493,200	5,493,200
TEACHER TRAINING	2,290,600	2,290,600	2,290,600
OCCUPATIONAL SAFETY AND HEALTH REVIEW BOARD			
OPERATING LUMP SUM APPROPRIATION	10,818	10,818	2,525
PARKS BOARD, ARIZONA STATE			
ADMIN ADJUSTMENT KARTCHNER CAVERNS STATE PARK	-	45,779	45,779
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	341,797	341,797
GF C/O YARNELL HILL MEMORIAL SITE ACQUIS	428,378	428,378	422,982
KARTCHNER CAVERNS STATE PARK	2,232,000	2,227,400	2,203,708
OPERATING LUMP SUM APPROPRIATION	10,610,100	10,666,400	9,670,760
SPRF BSF STATE PARKS CAPITAL IMPROVEMENT	2,966,539	2,966,539	778,138
POSTSECONDARY EDUCATION, COMMISSION FOR			
ADMIN ADJUSTMENT AZ MINORITY ED POLICY ANALYSIS CENTER	-	35	35
ARIZONA COLLEGE AND CAREER GUIDE	21,300	21,300	2,087
AZ MINORITY ED POLICY ANALYSIS CENTER	100,000	100,000	48,982
LEVERAGING EDUCATIONAL ASSISTANCE PRTSHP	2,319,500	2,319,500	2,319,500
MATH AND SCIENCE TEACHER INITIATIVE	176,000	176,000	176,000
OPERATING LUMP SUM APPROPRIATION	184,900	184,300	125,553
TWELVE PLUS PARTNERSHIP	130,500	130,500	24,557
PUBLIC SAFETY, DEPARTMENT OF			
ACTIC	750,000	750,000	527,440
ADMIN ADJUSTMENT GIITEM	-	171,532	171,532
ADMIN ADJUSTMENT GIITEM SUBACCOUNT	-	38,057	38,057
ADMIN ADJUSTMENT MOTOR VEHICLE FUEL	-	376,511	376,511
GIITEM	22,217,700	22,172,900	21,105,695
GIITEM IMPACT APPROPRIATION	2,980,304	2,980,304	2,639,277
GIITEM SUBACCOUNT	2,390,000	2,390,000	2,033,212
MICROWAVE COMMUNICATION SYSTEM UPGRADE	10,348	10,348	8,248
MOTOR VEHICLE FUEL	4,384,200	3,074,500	2,446,024
OPERATING LUMP SUM APPROPRIATION	67,453,000	68,605,500	68,605,500
RADIATION REGULATORY AGENCY			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	10,701	10,701
NUCLEAR EMERGENCY MANAGEMENT FUND	-	819,663	819,663
OPERATING LUMP SUM APPROPRIATION	1,353,400	1,354,000	1,351,500
REAL ESTATE DEPARTMENT, STATE			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	9,624	9,624
OPERATING LUMP SUM APPROPRIATION	2,989,700	2,985,200	2,551,718
REGENTS, ARIZONA BOARD OF			
ARIZONA TEACHERS INCENTIVE PROGRAM	90,000	90,000	90,000
ARIZONA TRANSFER ARTICULATION SUPPORT SYSTEM	213,700	213,700	213,700
HEALTH CARE ADJUSTMENTS	-	4,076,000	4,076,000
OPERATING LUMP SUM APPROPRIATION	2,352,500	2,352,500	2,352,500
PERFORMANCE FUNDING	5,000,000	5,000,000	5,000,000
STUDENT FINANCIAL ASSISTANCE	10,041,200	10,041,200	10,041,200
WESTERN INTERSTATE COMMISSION OFFICE	137,000	141,000	141,000
WICHE STUDENT SUBSIDIES	4,094,000	4,090,000	4,090,000
REVENUE, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	1,479,395	1,479,395
ADMIN ADJUSTMENT UNCLAIMED PROPERTY ADMINISTRATION-AUDIT	-	16,413	16,413

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, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
BRITS OPERATIONAL SUPPORT	7,604,200	7,538,900	7,150,815
OPERATING LUMP SUM APPROPRIATION	66,300,800	66,165,400	62,291,909
RELIEF	-	5,323	5,323
TPT INFORMATION TECHNOLOGY	1,230,700	1,230,700	1,150,412
TPT SIMPLIFICATION	990,600	990,600	974,919
UNCLAIMED PROPERTY ADMINISTRATION - AUDIT	1,218,500	2,043,500	1,880,848
UNCLAIMED PROPERTY ADMINISTRATION - AUDIT GF TRANSFER	825,000	825,000	825,000
SCHOOL FACILITIES BOARD			
ACCESS OUR BEST PUBLIC SCHOOLS FUND DEPOSIT	23,900,000	23,900,000	23,900,000
ADMIN ADJUSTMENT NEW SCHOOL CONSTRUCTION	-	214,550	214,550
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	28,804	28,804
BUILDING RENEWAL GRANT	16,667,900	31,667,900	31,667,900
NEW SCHOOL CONSTRUCTION	2,249,600	2,249,600	2,249,600
NEW SCHOOL FACILITIES DEBT SERVICE	172,388,100	171,109,400	171,109,400
OPERATING LUMP SUM APPROPRIATION	1,677,100	1,672,500	1,451,178
SECRETARY OF STATE			
ADMIN ADJUSTMENT ELECTION SERVICES	-	2,432	2,432
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	161,992	161,992
BUILDING RENOVATION AND CODE C	102,797	102,797	-
ELECTION SERVICES	4,431,900	10,556,400	4,335,913
ELECTION SERVICES MAY 17	-	9,300,000	-
HELP AMERICA VOTE ACT	4,166,607	4,167,007	892,030
LIBRARY GRANTS-IN-AID	908,448	908,448	658,212
OPERATING LUMP SUM APPROPRIATION	10,588,800	10,573,700	10,162,901
STATEWIDE RADIO READING SVC FOR BLIND	97,000	97,000	97,000
SENATE			
BORDER SECURITY TRUST FUND	263,667	263,667	219,248
OPERATING LUMP SUM APPROPRIATION	8,875,672	8,815,772	7,946,698
SUPREME COURT			
ADMIN ADJUSTMENT ADULT INTENSIVE PROBATION	-	43,328	43,328
ADMIN ADJUSTMENT ADULT STANDARD PROBATION	-	30,749	30,749
ADMIN ADJUSTMENT DOMESTIC RELATIONS	-	4,428	4,428
ADMIN ADJUSTMENT FOSTER CARE REVIEW BOARD	-	3,906	3,906
ADMIN ADJUSTMENT JUDICIAL NOMINATION - PERFORMANCE REVIEW	-	44	44
ADMIN ADJUSTMENT JUVENILE FAMILY COUNSELING	-	1,782	1,782
ADMIN ADJUSTMENT JUVENILE TREATMENT SERVICES	-	110,752	110,752
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	168,413	168,413
ADULT INTENSIVE PROBATION	8,374,800	8,635,208	8,635,208
ADULT STANDARD PROBATION	11,335,100	11,575,296	11,575,294
AUTOMATION	6,884,800	6,884,800	6,131,472
CENTRALIZED SERVICE PAYMENTS	3,008,100	3,008,100	2,910,508
COMMISSION ON JUDICIAL CONDUCT	512,500	505,000	504,940
COUNTY REIMBURSEMENTS	187,900	187,900	187,900
DOMESTIC RELATIONS	629,100	621,000	610,409
DRUG COURT	1,054,922	1,054,922	993,598
FOSTER CARE REVIEW BOARD	3,255,900	3,212,300	3,204,251
INTERSTATE COMPACT	323,900	323,900	323,900
JUDGES COMPENSATION	8,231,000	8,231,000	8,104,855
JUDICIAL NOMINATION - PERFORMANCE REVIEW	418,500	413,500	412,096
JUVENILE DIVERSION CONSEQUENCES	8,039,300	8,039,300	8,039,300
JUVENILE FAMILY COUNSELING	500,000	500,000	490,786
JUVENILE INTENSIVE PROBATION	5,532,700	5,272,292	5,272,292
JUVENILE STANDARD PROBATION	3,595,700	3,355,504	3,355,504
JUVENILE TREATMENT SERVICES	19,937,800	19,937,800	19,937,800
MODEL COURT	437,600	437,600	434,625
OPERATING LUMP SUM	3,879,400	3,879,400	3,871,570
OPERATING LUMP SUM APPROPRIATION	9,981,900	9,886,300	9,580,509
SPECIAL WATER MASTER	160,000	160,000	111,265
TAX APPEALS, STATE BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	442	442
OPERATING LUMP SUM APPROPRIATION	265,600	266,400	262,339

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, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TOURISM, OFFICE OF			
TOURISM FUND DEPOSIT	7,103,700	7,110,400	7,103,700
TRANSPORTATION, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	90	90
NAVAJO NATION TRANSPORTATION PROJECT	1,200,000	1,200,000	1,200,000
OPERATING LUMP SUM APPROPRIATION	50,400	50,400	49,641
TREASURER, STATE			
ADMIN ADJUSTMENT JUSTICE OF THE PEACE SALARIES	-	327,759	327,759
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	46,708	46,708
COMMUNITY COLLEGE REIMBURSEMENT ARS 15-1469-01	-	2,523,400	2,523,400
CORPORATE INCOME TAX TRANSFER	-	7,000,000	7,000,000
JUSTICE OF THE PEACE SALARIES	1,205,100	1,205,100	945,188
OPERATING LUMP SUM APPROPRIATION	2,861,900	2,848,100	2,686,320
UNIVERSITY OF ARIZONA			
AGRICULTURE	27,310,100	28,537,900	28,537,900
ARIZONA COOPERATIVE EXTENSION	14,660,200	14,317,700	14,317,700
CLINICAL RURAL ROTATION	353,400	350,500	350,500
CLINICAL TEACHING SUPPORT	8,587,000	8,484,400	8,484,400
FREEDOM CENTER	500,000	500,000	500,000
LIVER RESEARCH INSTITUTE	430,100	450,600	450,600
OPERATING LUMP SUM APPROPRIATION - HSC	35,270,000	50,790,000	50,790,000
OPERATING LUMP SUM APPROPRIATION - MAIN	124,640,900	185,959,500	185,959,500
PHOENIX MEDICAL CAMPUS	22,589,100	23,256,200	23,256,200
RESEARCH INFRASTRUCTURE FACILITIES	-	9,593,600	9,593,600
SIERRA VISTA CAMPUS	2,695,700	2,743,800	2,743,800
TELEMEDICINE NETWORK	1,854,400	1,838,500	1,838,500
VETERANS' SERVICES, DEPARTMENT OF			
ADMIN ADJUSTMENT ARIZONA STATE VETERANS CEMETERIES	-	13	13
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	43,075	43,075
ADMIN ADJUSTMENT VETERANS BENEFIT COUNSELING	-	8,956	8,956
ARIZONA STATE VETERANS CEMETERIES	929,400	928,000	903,387
ASVH - YUMA CONSTRUCTION	9,200,000	9,200,000	-
MILITARY FAMILY RELIEF FUND	15,291	15,291	-
OPERATING LUMP SUM APPROPRIATION	2,314,600	2,316,100	2,280,161
VETERANS BENEFIT COUNSELING	2,848,100	2,833,700	2,775,117
WATER RESOURCES, DEPARTMENT OF			
ADJUDICATION SUPPORT	1,257,200	1,251,800	1,249,726
ADMIN ADJUSTMENT AUTOMATED GROUNDWATER MONITORING	-	689	689
ADMIN ADJUSTMENT RURAL WATER STUDIES	-	59,326	59,326
ASSURED - ADEQUATE WATER SUPPLY ADMIN	1,723,800	1,716,600	1,699,500
AUTOMATED GROUNDWATER MONITORING	410,300	409,400	375,982
CONSERVATION AND DROUGHT PROGRAM	410,200	408,300	388,417
LOWER COLORADO RIVER LITIGATION EXPENSES	1,019,663	1,019,663	955
OPERATING LUMP SUM APPROPRIATION	7,360,700	7,352,500	6,989,744
RURAL WATER STUDIES	1,168,100	1,164,500	1,096,613
WEIGHTS AND MEASURES, DEPARTMENT OF			
ADMIN ADJUSTMENT GENERAL SERVICES	-	10,842	10,842
GENERAL SERVICES	1,407,700	1,399,000	1,180,869
HB2485 SUPPLEMENTAL APPROPRIATION	-	1,318	1,318
TOTAL GENERAL FUND BUDGETARY EXPENDITURES	\$ 17,307,223,941	\$ 20,035,543,259	\$ 18,979,327,723

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, 2016
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TRANSPORTATION, DEPARTMENT OF			
ADMIN ADJUSTMENT FRAUD INVESTIGATION	\$ -	\$ 2,250	\$ 2,250
ADMIN ADJUSTMENT NEW THIRD PARTY FUNDING	-	408,024	408,024
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	3,505,823	3,505,823
AIRPORT PLANNING AND DEVELOPMENT	43,188,239	43,188,239	25,700,382
ATTORNEY GENERAL LEGAL SERVICES	3,310,400	3,577,700	3,527,640
BUILDING RENEWAL	6,718,169	6,718,169	4,037,848
DE ICER BUILDINGS	4,563,727	4,563,727	2,294,850
FRAUD INVESTIGATION	773,600	768,500	741,995
HIGHWAY MAINTENANCE	148,120,937	147,685,637	136,715,485
NEW THIRD PARTY FUNDING	971,500	965,300	942,769
OPERATING LUMP SUM APPROPRIATION	206,550,200	205,654,700	195,656,458
RELIEF	-	3,487	3,487
STATEWIDE HIGHWAY CONSTRUCTION	364,981,959	364,981,959	146,534,578
SWEEPS	17,000,000	17,000,000	17,000,000
VEHICLE WASH SYSTEM	6,827,357	6,827,357	664,552
TOTAL TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND BUDGETARY EXPENDITURES	\$ 803,006,088	\$ 805,850,872	\$ 537,736,141

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, 2016

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, 2015 that affect available appropriations during fiscal year 2016. The final budget represents any appropriation bills passed during fiscal year 2016 for fiscal year 2016 plus the original budget. Appropriation bills passed after the end of fiscal year 2016 for fiscal year 2016 would also be included in the final budget.

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

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund
Uses/outflows of resources		
Actual expenditure amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$ 18,979,328	\$ 537,736
Differences – budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2015 to fiscal year end 2016.	88,589	567,850
Increase in unpaid payroll expenditures from fiscal year end 2015 to fiscal year end 2016. For budgetary reporting, final June 2015 payroll expenditures were charged to fiscal year 2016 budget and final June 2016 payroll expenditures were charged to fiscal year 2017 budget.	13,667	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,298,100	-
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.	557,134	-
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2016.	3,663,090	1,969,163
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(888,098)	(304,311)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 23,711,810	\$ 2,770,438

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, 2016

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 (OSPB), unless an extension is granted for up to an additional 30 days by the OSPB Director. 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. At the time of the appropriation bill's passage, estimates prepared by legislative and executive branch professional staff assure the State Legislature that adequate revenues will be available to meet the level of appropriations approved. Anticipated revenue is estimated on the cash basis but is not part of the legally adopted budget. Consequently, the accompanying Budgetary Comparison Schedules only present budget to actual expenditure comparisons.

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

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

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

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

During the fiscal year, \$2.7 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 \$2.8 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.

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.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2016

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), as amended, the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,822 center lane miles (21,532 travel lane miles) of roads and 4,858 bridges that the State is responsible to maintain.

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

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

As adopted by the State Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program (Program) contains estimated expenditures for highway system improvements and the preservation of existing roadways and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Program in effect for fiscal year 2016 and beyond was adopted by the Transportation Board on June 19, 2015.

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

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

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

Roads

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

The PMS has developed performance goals for the condition level of the pavement in the State’s highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability”, which can be defined as the ability of a pavement to serve the traveling public (as documented in 1961 after the American Association of State Highway and Transportation Officials (AASHTO) Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the traveling public. Most commonly, this number is called the “Present Serviceability Rating” (PSR). PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

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 JUNE 30, 2016

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 2016, an overall rating of 3.66 was achieved, as shown in the following graph:

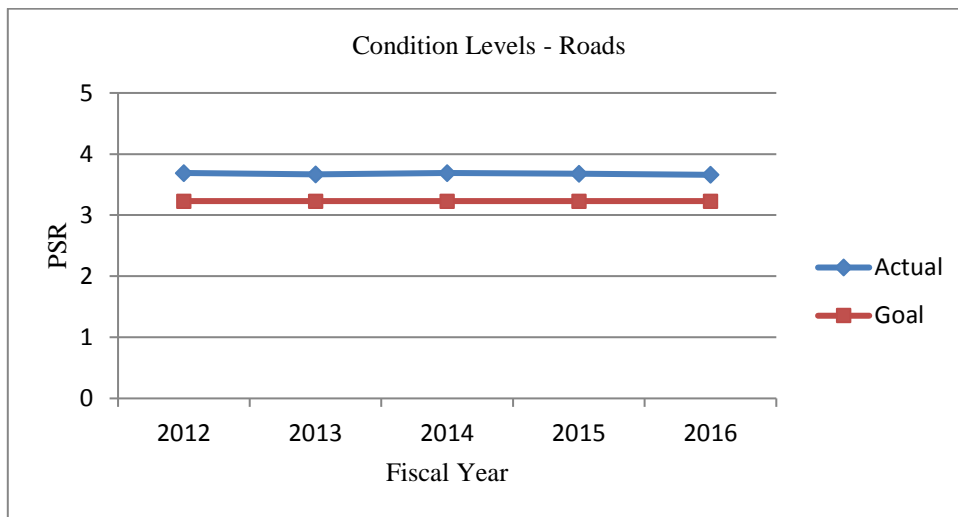


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT’s PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2012 through 2016 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2012	\$261.9	\$373.6
2013	\$276.3	\$291.3
2014	\$271.2	\$287.2
2015	\$249.5	\$300.6
2016	\$272.0	\$317.0

Bridges

The State’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2016, the State owned and maintained 4,858 bridges with an approximate total deck area of 49,764,611 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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
 JUNE 30, 2016

used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

Historically, a Condition Rating Index (CRI) has been used to track the condition of the bridge network. The CRI was 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.”

In 2015, the FHWA issued new rules which have had the effect of replacing the CRI as the summary statistic for bridge condition. Instead, the various states are expected to maintain their bridges so that no more than 10% are classified as Poor. Financial sanctions are held against states that do not comply with this standard. Management of the bridge inventory is a major function of the State’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.

In fiscal year 2016, 2.9% of bridges maintained by the states were classified as Poor. As this is the first year this measurement has been used, long-term trend data is not available, but will be accumulated over time.

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 2 indicates that approximately 56% of the bridges in the State were constructed prior to the 1970s while only 15% have been constructed since 2000.

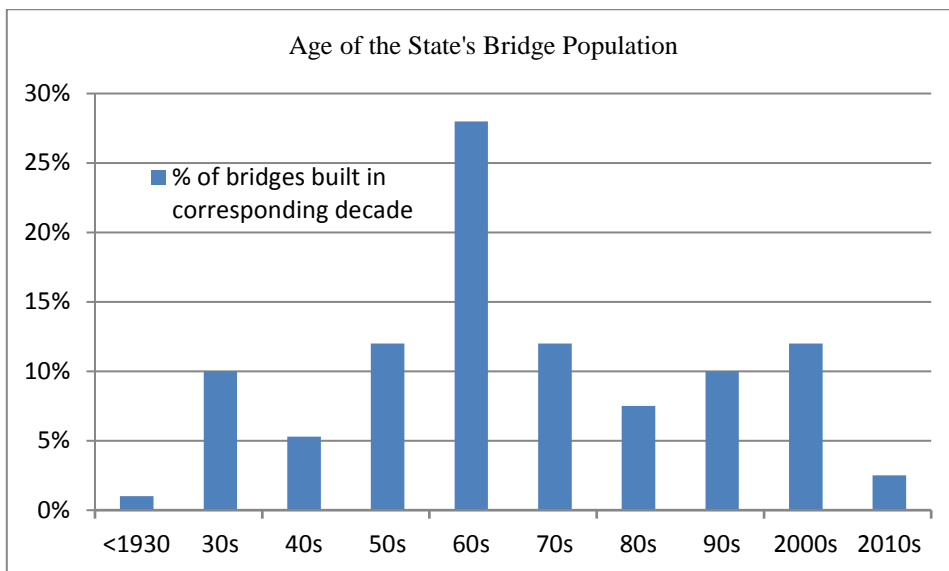


Figure 2

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 2012 through 2016 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2012	\$12.5	\$20.6
2013	\$14.7	\$10.7
2014	\$21.2	\$20.5
2015	\$13.7	\$21.9
2016	\$11.6	\$39.8

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
ARIZONA STATE RETIREMENT SYSTEM
 FOR THE LAST TWO FISCAL YEARS (1)
 JUNE 30, 2016
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)	
	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	21.67%	21.36%
State's proportionate share of the net pension liability	\$ 3,375,283	\$ 3,160,809
State's covered-employee payroll	\$ 1,999,691	\$ 1,939,038
State's proportionate share of the net pension liability as a percentage of its covered-employee payroll	168.79%	163.01%
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 ELECTED OFFICIALS' RETIREMENT PLAN**
 FOR THE LAST TWO FISCAL YEARS (1)
 JUNE 30, 2016
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)	
	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	18.67%	18.16%
State's proportionate share of the net pension liability	\$ 145,898	\$ 121,797
State's covered-employee payroll	\$ 12,987	\$ 12,604
State's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1,123.42%	966.34%
Plan fiduciary net position as a percentage of the total pension liability	28.32%	31.91%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY,
 AS A NONEMPLOYER CONTRIBUTING ENTITY**
ELECTED OFFICIALS' RETIREMENT PLAN
 FOR THE LAST TWO FISCAL YEARS (1)
 JUNE 30, 2016
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)	
	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	19.33%	19.20%
State's proportionate share of the net pension liability	\$ 151,048	\$ 128,776
Plan fiduciary net position as a percentage of the total pension liability	28.32%	31.91%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS
PSPRS DEPARTMENT OF PUBLIC SAFETY
 FOR THE LAST TWO FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)	
	2016 (2015)	2015 (2014)
Total pension liability		
Service cost	\$ 13,258	\$ 13,111
Interest on the total pension liability	77,421	66,664
Changes of benefit terms	-	23,768
Differences between expected and actual experience in the measurement of the pension liability	(6,328)	(3,711)
Changes of assumptions or other inputs	-	107,172
Benefit payments, including refunds of employee contributions	(70,586)	(69,497)
Net change in total pension liability	13,765	137,507
Total pension liability - beginning	1,014,922	877,415
Total pension liability - ending (a)	<u>\$ 1,028,687</u>	<u>\$ 1,014,922</u>
Plan fiduciary net position		
Contributions - employer	\$ 40,328	\$ 34,965
Contributions - employee	4,418	4,080
Net investment income	12,867	46,223
Benefit payments, including refunds of employee contributions	(70,586)	(69,497)
Administrative expense	(317)	(372)
Other changes	150	393
Net change in plan fiduciary net position	(13,140)	15,792
Plan fiduciary net position - beginning	361,254	345,462
Plan fiduciary net position - ending (b)	<u>\$ 348,114</u>	<u>\$ 361,254</u>
State's net pension liability - ending (a) - (b)	<u>\$ 680,573</u>	<u>\$ 653,668</u>
Plan fiduciary net position as a percentage of the total pension liability	33.84%	35.59%
Covered-employee payroll	\$ 66,879	\$ 63,956
State's net pension liability as a percentage of covered-employee payroll	1,017.62%	1,022.06%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS
CORP DEPARTMENT OF CORRECTIONS
 FOR THE LAST TWO FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)	
	2016 (2015)	2015 (2014)
Total pension liability		
Service cost	\$ 47,131	\$ 48,061
Interest on the total pension liability	108,123	92,486
Changes of benefit terms	-	21,354
Differences between expected and actual experience in the measurement of the pension liability	(30,179)	(3,818)
Changes of assumptions or other inputs	-	125,557
Benefit payments, including refunds of employee contributions	(84,586)	(83,365)
Net change in total pension liability	40,489	200,275
Total pension liability - beginning	1,396,097	1,195,822
Total pension liability - ending (a)	<u>\$ 1,436,586</u>	<u>\$ 1,396,097</u>
Plan fiduciary net position		
Contributions - employer	\$ 43,105	\$ 40,166
Contributions - employee	27,734	27,722
Net investment income	28,414	96,216
Benefit payments, including refunds of employee contributions	(84,586)	(83,365)
Administrative expense	(704)	(757)
Other changes	(1,040)	(446)
Net change in plan fiduciary net position	12,923	79,536
Plan fiduciary net position - beginning	776,005	696,469
Plan fiduciary net position - ending (b)	<u>\$ 788,928</u>	<u>\$ 776,005</u>
State's net pension liability - ending (a) - (b)	<u>\$ 647,658</u>	<u>\$ 620,092</u>
Plan fiduciary net position as a percentage of the total pension liability	54.92%	55.58%
Covered-employee payroll	\$ 327,798	\$ 326,819
State's net pension liability as a percentage of covered-employee payroll	197.58%	189.74%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE PENSION CONTRIBUTIONS
ARIZONA STATE RETIREMENT SYSTEM
 FOR THE LAST THREE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Fiscal Year		
	2016	2015	2014
Statutorily required contribution	\$ 220,982	\$ 217,388	\$ 206,040
State's contributions in relation to the statutorily required contribution	220,982	217,388	206,040
State's contribution deficiency (excess)	\$ -	\$ -	\$ -
State's covered-employee payroll	\$ 2,039,238	\$ 1,999,691	\$ 1,939,038
State's contributions as a percentage of covered-employee payroll	10.84%	10.87%	10.63%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE PENSION CONTRIBUTIONS
ELECTED OFFICIALS' RETIREMENT PLAN
 FOR THE LAST THREE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Fiscal Year		
	2016	2015	2014
Statutorily required contribution (2)	\$ 3,805	\$ 3,928	\$ 3,870
State's contributions in relation to the statutorily required contribution (2)	3,805	3,928	3,870
State's contribution deficiency (excess)	\$ -	\$ -	\$ -
State's covered-employee payroll	\$ 12,794	\$ 12,987	\$ 12,604
State's contributions as a percentage of covered-employee payroll	29.74%	30.25%	30.70%

- (1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.
- (2) The State appropriated \$5 million annually, in addition to payroll contributions. This amount is split between employer and nonemployer contributions based on the State's actual payroll contributions to the plan relative to the total of all participating employers' actual contributions.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE PENSION CONTRIBUTIONS,
AS A NONEMPLOYER CONTRIBUTING ENTITY
ELECTED OFFICIALS' RETIREMENT PLAN
 FOR THE LAST THREE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Fiscal Year		
	2016	2015	2014
Statutorily required contribution (2)	\$ 4,078	\$ 4,066	\$ 4,092
State's contributions in relation to the statutorily required contribution (2)	4,078	4,066	4,092
State's contribution deficiency (excess)	\$ -	\$ -	\$ -

- (1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.
- (2) The State appropriated \$5 million annually, in addition to payroll contributions. This amount is split between employer and nonemployer contributions based on the State's actual payroll contributions to the plan relative to the total of all participating employers' actual contributions.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE PENSION CONTRIBUTIONS
PSPRS DEPARTMENT OF PUBLIC SAFETY
 FOR THE LAST THREE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Fiscal Year		
	2016	2015	2014
Actuarially determined contribution	\$ 56,121	\$ 40,328	\$ 34,965
State's contributions in relation to the actuarially determined contribution	56,121	40,328	34,965
State's contribution deficiency (excess)	\$ -	\$ -	\$ -
State's covered-employee payroll	\$ 69,286	\$ 66,879	\$ 63,956
State's contributions as a percentage of covered-employee payroll	81.00%	60.30%	54.67%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE PENSION CONTRIBUTIONS
CORP DEPARTMENT OF CORRECTIONS
 FOR THE LAST THREE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	Fiscal Year		
	2016	2015	2014
Actuarially determined contribution	\$ 60,984	\$ 43,105	\$ 40,166
State's contributions in relation to the actuarially determined contribution	60,984	43,105	40,166
State's contribution deficiency (excess)	\$ -	\$ -	\$ -
State's covered-employee payroll	\$ 330,538	\$ 327,798	\$ 326,819
State's contributions as a percentage of covered-employee payroll	18.45%	13.15%	12.29%

(1) The State implemented GASB 68 in fiscal year 2015. Therefore, ten years of data is not available, but will be accumulated over time.

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN SCHEDULES
 JUNE 30, 2016

A. ACTUARIALLY DETERMINED CONTRIBUTION RATES

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period, as of the 2014 actuarial valuation	22 years for unfunded actuarial liability, 20 years for excess
Asset valuation method	7-year smoothed market value, 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS and from 4.5%-7.75% to 4.0%-7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

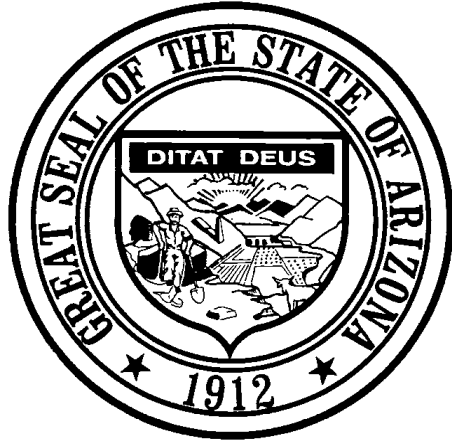
B. FACTORS THAT AFFECT TRENDS

In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the PSPRS and CORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases and revised actuarial assumptions to explicitly value future permanent benefit increases. These changes are included in the PSPRS’ and CORP’s changes in total pension liability for fiscal year 2015 (measurement date 2014) in the schedule of changes in the State’s net pension liability and related ratios. These changes also increased the PSPRS’ and CORP’s required contributions beginning in fiscal year 2016 in the schedule of State pension contributions.

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SINGLE-EMPLOYER OPEB PLAN FUNDING PROGRESS
 JUNE 30, 2016

Analysis of the funding progress for the ADOA single-employer defined benefit post-employment plan, as of the most recent actuarial valuations, is as follows (expressed in thousands):

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
6/30/2016	-	\$ 1,182,155	\$ (1,182,155)	0.0%	\$ 3,496,022	(33.8)%
6/30/2014	-	254,365	(254,365)	0.0%	3,230,344	(7.9)%
6/30/2012	-	226,169	(226,169)	0.0%	2,791,581	(8.1)%



**COMBINING FINANCIAL
STATEMENTS AND
SCHEDULES**

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

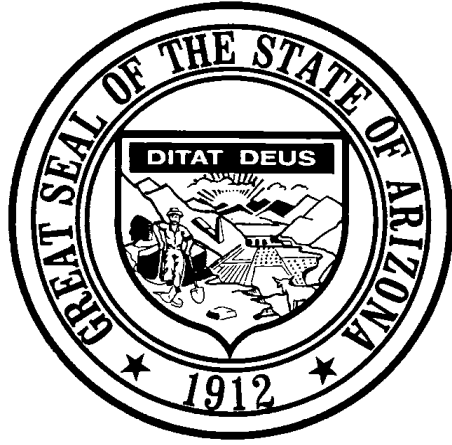
Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Pension Trust Funds or Component Units).

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
ASSETS				
Cash	\$ 1,773	\$ -	\$ -	\$ 1,773
Cash and pooled investments with State Treasurer	845,566	9,672	-	855,238
Collateral investment pool	3,340	-	2,130	5,470
Receivables, net of allowances:				
Taxes	81,126	-	-	81,126
Interest	-	-	-	-
Other	27,764	-	-	27,764
Due from U.S. Government	16,040	-	-	16,040
Due from other Funds	71,276	3,751	-	75,027
Restricted assets:				
Cash and pooled investments with State Treasurer	384,262	31,487	145,195	560,944
Cash held by trustee	-	29,859	-	29,859
Total Assets	\$ 1,431,147	\$ 74,769	\$ 147,325	\$ 1,653,241
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	\$ 34,382	\$ -	\$ 5,842	\$ 40,224
Accrued liabilities	51,177	1,947	69	53,193
Obligations under securities loan agreements	3,340	-	2,130	5,470
Tax refunds payable	3	-	-	3
Due to local governments	140,870	-	-	140,870
Due to others	12,356	-	-	12,356
Due to other Funds	11,560	-	-	11,560
Unearned revenue	1,361	-	-	1,361
Total Liabilities	255,049	1,947	8,041	265,037
Deferred Inflows of Resources:				
Unavailable revenue	508	-	-	508
Fund Balances:				
Restricted	529,090	72,822	139,284	741,196
Committed	646,500	-	-	646,500
Total Fund Balances	1,175,590	72,822	139,284	1,387,696
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 1,431,147	\$ 74,769	\$ 147,325	\$ 1,653,241

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
REVENUES				
Taxes:				
Sales	\$ 514,410	\$ 64,147	\$ -	\$ 578,557
Income	26	-	-	26
Tobacco	253,322	-	-	253,322
Property	2,000	-	-	2,000
Motor vehicle and fuel	154,391	-	-	154,391
Other	79,365	-	-	79,365
Intergovernmental	96,344	-	-	96,344
Licenses, fees, and permits	298,749	-	-	298,749
Hospital and nursing facility assessments	299,608	-	-	299,608
Earnings on investments	63,972	1,770	2,023	67,765
Sales and charges for services	26,691	-	-	26,691
Fines, forfeitures, and penalties	136,729	-	-	136,729
Gaming	85,340	-	-	85,340
Other	16,377	149	-	16,526
Total Revenues	<u>2,027,324</u>	<u>66,066</u>	<u>2,023</u>	<u>2,095,413</u>
EXPENDITURES				
Current:				
General government	118,482	3,832	-	122,314
Health and welfare	538,755	-	-	538,755
Inspection and regulation	121,207	-	-	121,207
Education	734,167	-	-	734,167
Protection and safety	286,204	-	-	286,204
Transportation	-	-	16,109	16,109
Natural resources	125,304	-	-	125,304
Intergovernmental revenue sharing	-	-	8	8
Debt service:				
Principal	11,924	348,570	-	360,494
Interest and other fiscal charges	14,356	201,900	-	216,256
Capital outlay	15,350	-	51,643	66,993
Total Expenditures	<u>1,965,749</u>	<u>554,302</u>	<u>67,760</u>	<u>2,587,811</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>61,575</u>	<u>(488,236)</u>	<u>(65,737)</u>	<u>(492,398)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	146,670	503,445	-	650,115
Transfers out	(150,626)	-	-	(150,626)
Capital lease and installment purchase contracts	3,579	-	-	3,579
Refunding certificates of participation issued	-	163,995	-	163,995
Payment to refunded certificates of participation escrow agent	-	(126,596)	-	(126,596)
Payment to refunded bond escrow agent	-	(62,630)	-	(62,630)
Premium on debt issued	-	25,435	-	25,435
Total Other Financing Sources (Uses)	<u>(377)</u>	<u>503,649</u>	<u>-</u>	<u>503,272</u>
Net Change in Fund Balances	61,198	15,413	(65,737)	10,874
Fund Balances - Beginning	1,114,392	57,409	205,021	1,376,822
Fund Balances - Ending	<u>\$ 1,175,590</u>	<u>\$ 72,822</u>	<u>\$ 139,284</u>	<u>\$ 1,387,696</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, 2016
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
ASSETS						
Cash	\$ 1,726	\$ -	\$ -	\$ -	\$ -	\$ 17
Cash and pooled investments with State Treasurer	114,648	122,260	131,408	13,825	100,806	140,010
Collateral investment pool	-	-	-	3,340	-	-
Receivables, net of allowances:						
Taxes	4,889	229	5,797	15,179	-	-
Other	-	185	7,226	-	5	5,988
Due from U.S. Government	-	-	16,013	27	-	-
Due from other Funds	2,755	6,884	4,363	388	1,042	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	820	383,442	-	-
Total Assets	\$ 124,018	\$ 129,558	\$ 165,627	\$ 416,201	\$ 101,853	\$ 146,015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 15,790	\$ 1,789	\$ 4,590	\$ 3,630	\$ 1,581	\$ 2,900
Accrued liabilities	7,708	652	35,886	482	1,062	3,068
Obligations under securities loan agreements	-	-	-	3,340	-	-
Tax refunds payable	-	-	-	3	-	-
Due to local governments	-	-	-	-	-	-
Due to others	-	4	-	11,898	381	68
Due to other Funds	-	233	1,225	10,096	-	6
Unearned revenue	-	87	572	-	-	702
Total Liabilities	23,498	2,765	42,273	29,449	3,024	6,744
Deferred Inflows of Resources:						
Unavailable revenue	-	-	508	-	-	-
Fund Balances:						
Restricted	539	-	30,232	386,752	4,439	2,259
Committed	99,981	126,793	92,614	-	94,390	137,012
Total Fund Balances	100,520	126,793	122,846	386,752	98,829	139,271
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 124,018	\$ 129,558	\$ 165,627	\$ 416,201	\$ 101,853	\$ 146,015

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,773
53,884	14,263	22,460	86,284	19,399	26,319	845,566
-	-	-	-	-	-	3,340
-	-	-	55,032	-	-	81,126
1,821	-	-	12,538	-	1	27,764
-	-	-	-	-	-	16,040
183	172	-	55,488	-	1	71,276
-	-	-	-	-	-	384,262
<u>\$ 55,918</u>	<u>\$ 14,435</u>	<u>\$ 22,460</u>	<u>\$ 209,342</u>	<u>\$ 19,399</u>	<u>\$ 26,321</u>	<u>\$ 1,431,147</u>
\$ 1,219	\$ 879	\$ 522	\$ 733	\$ 189	\$ 560	\$ 34,382
1,748	163	140	193	49	26	51,177
-	-	-	-	-	-	3,340
-	-	-	-	-	-	3
-	-	-	140,870	-	-	140,870
-	-	5	-	-	-	12,356
-	-	-	-	-	-	11,560
-	-	-	-	-	-	1,361
<u>2,967</u>	<u>1,042</u>	<u>667</u>	<u>141,796</u>	<u>238</u>	<u>586</u>	<u>255,049</u>
-	-	-	-	-	-	508
10,980	-	608	67,546	-	25,735	529,090
41,971	13,393	21,185	-	19,161	-	646,500
<u>52,951</u>	<u>13,393</u>	<u>21,793</u>	<u>67,546</u>	<u>19,161</u>	<u>25,735</u>	<u>1,175,590</u>
<u>\$ 55,918</u>	<u>\$ 14,435</u>	<u>\$ 22,460</u>	<u>\$ 209,342</u>	<u>\$ 19,399</u>	<u>\$ 26,321</u>	<u>\$ 1,431,147</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, 2016
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
REVENUES						
Taxes:						
Sales	\$ 17,920	\$ 2,427	\$ 5,009	\$ -	\$ -	\$ -
Income	-	-	-	-	-	-
Tobacco	5,785	-	7,980	239,557	-	-
Property	-	-	2,000	-	-	-
Motor vehicle and fuel	106,641	34,875	1,876	-	-	329
Other	55,926	-	1	-	-	23,438
Intergovernmental	21,952	-	30,408	193	1,603	114
Licenses, fees, and permits	23,890	57,202	26,763	-	25,799	108,395
Hospital and nursing facility assessments	-	-	299,608	-	-	-
Earnings on investments	307	459	275	10,050	621	213
Sales and charges for services	9,423	-	2,727	27	675	2,990
Fines, forfeitures, and penalties	67,149	244	10,385	-	48,844	2,171
Gaming	-	-	22,445	-	-	11,681
Other	1,213	7	3,023	113	2,212	1,389
Total Revenues	<u>310,206</u>	<u>95,214</u>	<u>412,500</u>	<u>249,940</u>	<u>79,754</u>	<u>150,720</u>
EXPENDITURES						
Current:						
General government	28,980	895	3,180	628	73,024	1,783
Health and welfare	-	70,499	391,069	69,085	-	8,102
Inspection and regulation	-	466	-	-	-	120,741
Education	-	-	-	127,957	-	-
Protection and safety	286,204	-	-	-	-	-
Natural resources	27,170	540	-	-	-	-
Debt service:						
Principal	11,314	-	-	-	-	-
Interest and other fiscal charges	13,762	-	-	-	-	-
Capital outlay	5,160	175	625	-	63	686
Total Expenditures	<u>372,590</u>	<u>72,575</u>	<u>394,874</u>	<u>197,670</u>	<u>73,087</u>	<u>131,312</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(62,384)</u>	<u>22,639</u>	<u>17,626</u>	<u>52,270</u>	<u>6,667</u>	<u>19,408</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	78,079	7,000	27,135	12,735	3,954	4,010
Transfers out	(30,596)	(16,422)	(7,406)	(49,055)	(15,084)	(17,538)
Capital lease and installment purchase contracts	3,579	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>51,062</u>	<u>(9,422)</u>	<u>19,729</u>	<u>(36,320)</u>	<u>(11,130)</u>	<u>(13,528)</u>
Net Change in Fund Balances	<u>(11,322)</u>	<u>13,217</u>	<u>37,355</u>	<u>15,950</u>	<u>(4,463)</u>	<u>5,880</u>
Fund Balances - Beginning	<u>111,842</u>	<u>113,576</u>	<u>85,491</u>	<u>370,802</u>	<u>103,292</u>	<u>133,391</u>
Fund Balances - Ending	<u>\$ 100,520</u>	<u>\$ 126,793</u>	<u>\$ 122,846</u>	<u>\$ 386,752</u>	<u>\$ 98,829</u>	<u>\$ 139,271</u>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ 489,054	\$ -	\$ -	\$ 514,410
-	-	-	26	-	-	26
-	-	-	-	-	-	253,322
-	-	-	-	-	-	2,000
966	9,543	-	161	-	-	154,391
-	-	-	-	-	-	79,365
39,413	-	1,562	1,099	-	-	96,344
40,363	1,748	4,794	3,093	6,702	-	298,749
-	-	-	-	-	-	299,608
346	123	184	51,268	126	-	63,972
3,174	-	468	7,199	8	-	26,691
149	-	-	-	-	7,787	136,729
6,402	-	-	44,812	-	-	85,340
839	72	5,351	873	1,236	49	16,377
<u>91,652</u>	<u>11,486</u>	<u>12,359</u>	<u>597,585</u>	<u>8,072</u>	<u>7,836</u>	<u>2,027,324</u>
-	-	5,370	-	-	4,622	118,482
-	-	-	-	-	-	538,755
-	-	-	-	-	-	121,207
-	-	29	606,181	-	-	734,167
-	-	-	-	-	-	286,204
80,455	8,229	-	-	8,910	-	125,304
610	-	-	-	-	-	11,924
594	-	-	-	-	-	14,356
7,213	1,349	49	-	-	30	15,350
<u>88,872</u>	<u>9,578</u>	<u>5,448</u>	<u>606,181</u>	<u>8,910</u>	<u>4,652</u>	<u>1,965,749</u>
<u>2,780</u>	<u>1,908</u>	<u>6,911</u>	<u>(8,596)</u>	<u>(838)</u>	<u>3,184</u>	<u>61,575</u>
10,273	-	215	3,139	130	-	146,670
(4,048)	(4,000)	(5,786)	(153)	(526)	(12)	(150,626)
-	-	-	-	-	-	3,579
<u>6,225</u>	<u>(4,000)</u>	<u>(5,571)</u>	<u>2,986</u>	<u>(396)</u>	<u>(12)</u>	<u>(377)</u>
<u>9,005</u>	<u>(2,092)</u>	<u>1,340</u>	<u>(5,610)</u>	<u>(1,234)</u>	<u>3,172</u>	<u>61,198</u>
<u>43,946</u>	<u>15,485</u>	<u>20,453</u>	<u>73,156</u>	<u>20,395</u>	<u>22,563</u>	<u>1,114,392</u>
<u>\$ 52,951</u>	<u>\$ 13,393</u>	<u>\$ 21,793</u>	<u>\$ 67,546</u>	<u>\$ 19,161</u>	<u>\$ 25,735</u>	<u>\$ 1,175,590</u>

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ACCOUNTANCY, ARIZONA STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	\$ 23,709	\$ 23,709
OPERATING LUMP SUM APPROPRIATION	1,939,100	1,569,582
ACUPUNCTURE BOARD OF EXAMINERS		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	109	109
OPERATING LUMP SUM APPROPRIATION	159,100	141,813
ADMINISTRATION, ARIZONA DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	107,042	107,042
OPERATING LUMP SUM APPROPRIATION	1,498,500	610,114
AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM		
ADMIN ADJUSTMENT PROPOSITION 204 SERVICES	9,525,344	9,525,344
ALTCS SERVICES	74,917,900	61,270,997
PROPOSITION 204 SERVICES	250,060,800	224,402,860
TRADITIONAL MEDICAID SERVICES	34,498,500	34,498,500
ATHLETIC TRAINING, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	402	402
OPERATING LUMP SUM APPROPRIATION	118,900	107,273
ATTORNEY GENERAL - DEPARTMENT OF LAW		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	95,394	95,394
FEDERALISM UNIT	1,000,000	724,363
NATIONAL MORTGAGE SETTLEMENT	22,734,807	3,158,134
OPERATING LUMP SUM APPROPRIATION	10,473,900	10,250,361
TOBACCO ENFORCEMENT	734,600	159,165
VICTIMS RIGHTS	3,759,400	3,704,750
AUTOMOBILE THEFT AUTHORITY		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	682	682
AUTOMOBILE THEFT AUTHORITY GRANTS	4,607,700	4,595,727
OPERATING LUMP SUM APPROPRIATION	639,800	503,099
REIMBURSABLE PROGRAMS	50,000	-
BARBERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,793	1,793
OPERATING LUMP SUM APPROPRIATION	335,400	307,055
BEHAVIORAL HEALTH EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13,844	13,844
OPERATING LUMP SUM APPROPRIATION	1,760,500	1,532,396
BOARD OF MASSAGE THERAPY		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,807	1,807
OPERATING LUMP SUM APPROPRIATION	455,800	425,034
CHILD SAFETY, DEPARTMENT OF		
ADMIN ADJUSTMENT DCS OPERATING LUMP SUM	205,000	205,000
DCS IN-HOME PREVENTIVE SUPPORT SERVICES	1,459,300	1,459,300
DCS OPERATING LUMP SUM	207,900	207,900
CHIROPRACTIC EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,980	1,980
OPERATING LUMP SUM APPROPRIATION	451,400	398,741
CONTRACTORS, REGISTRAR OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	5,802	5,802
OFFICE OF ADMINISTRATIVE HEARINGS COSTS	1,017,600	328,461
OPERATING LUMP SUM APPROPRIATION	11,169,900	8,181,467
CORPORATION COMMISSION		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	186,452	186,452
ANNUAL REVERSION	2,297,041	2,297,041
ANNUAL REVERSION PUBLIC ACCESS FUND	903,199	903,199
CORPORATION FILINGS, SAME DAY SERVICE	398,500	-
OPERATING LUMP SUM APPROPRIATION	25,535,500	25,275,494
SEC DATABASE REPLACEMENT	730,000	668,140
SWEEPS	2,000,000	2,000,000
UTILITY, AUDIT, STUDY, INVEST, HEAR	1,725,802	629,991
CORRECTIONS, STATE DEPARTMENT OF		
ADMIN ADJUSTMENT INMATE HEALTH CARE CONTRACTED SERVICES	346,184	346,184

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	29,422	29,422
CASH TRANSFER TO BUILDING RENEWAL FUND	2,500,000	2,500,000
INMATE HEALTH CARE CONTRACTED SERVICES	10,000,000	8,000,000
OPERATING LUMP SUM APPROPRIATION	7,242,100	4,087,233
PRIVATE PRISON PER DIEM	24,517,000	14,380,438
SWEEPS	1,500,000	1,500,000
COSMETOLOGY, BOARD OF		
OPERATING LUMP SUM APPROPRIATION	1,807,700	1,707,583
CRIMINAL JUSTICE COMMISSION, ARIZONA		
ADMIN ADJUSTMENT STATE AID TO COUNTY ATTORNEYS	243,400	243,400
ADMIN ADJUSTMENT VICTIM COMPENSATION - ASSISTANCE	356,974	356,974
OPERATING LUMP SUM APPROPRIATION	887,900	654,706
STATE AID TO COUNTY ATTORNEYS	973,600	730,200
VICTIM COMPENSATION - ASSISTANCE	4,094,700	3,397,420
DEAF AND HARD OF HEARING, COMMISSION FOR THE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	154,160	154,160
AGENCY BUSINESS UPGRADES	220,000	193,825
INTERPRETER FOR CERTIFICATION AND LICENSURE FY04-05	255,313	-
OPERATING LUMP SUM APPROPRIATION	4,312,800	3,302,389
DENTAL EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,271	4,271
OPERATING LUMP SUM APPROPRIATION	1,215,500	1,134,182
ECONOMIC SECURITY, DEPARTMENT OF		
ADMIN ADJUSTMENT DES OPERATING LUMP SUM	1,887,878	1,887,878
ADMIN ADJUSTMENT INDEPENDENT LIVING REHABILITATION SERVICES	31,663	31,663
ADMIN ADJUSTMENT JOBS	1,110,900	1,110,900
ADMIN ADJUSTMENT REHABILITATION SERVICES	48,838	48,838
ATTORNEY GENERAL LEGAL SERVICES	97,900	4,271
DES OPERATING LUMP SUM	2,582,200	1,800,299
DOMESTIC VIOLENCE PREVENTION	2,500,000	2,499,975
HOME AND COMMUNITY SERVICES - STATE ONLY	120,000	120,000
INDEPENDENT LIVING REHABILITATION SERVICES	1,123,400	1,007,398
JOBS	1,110,900	856,305
REHABILITATION SERVICES	204,700	-
SWEEPS	4,936,400	4,936,400
EDUCATION, BOARD OF		
OPERATING LUMP SUM	379,800	162,725
EDUCATION, DEPARTMENT OF		
ACCOUNTABILITY-SCHOOL SAFETY-PROP 301	8,359,646	6,932,758
ACCOUNTABILITY AND ACHIEVEMENT TESTING-PROP 301	7,000,000	-
ACHIEVEMENT TESTING-PROP 301	10,341,302	9,353,544
ADDITIONAL SCHOOL DAYS-PROP 301	86,280,500	86,280,500
CHARACTER EDUCATION-PROP 301	223,304	132,758
FAILING SCHOOL TUTORING-PROP 301	2,031,448	593,481
OPERATING LUMP SUM APPROPRIATION-ADMIN	137,500	137,500
PROFESSIONAL DEVELOPMENT COURSES	2,700,000	7,643
SCHOOL ACCOUNTABILITY FUND-PROP 301	110,664	20,985
TEACHER CERTIFICATION	1,834,300	1,771,656
ENVIRONMENTAL QUALITY, DEPARTMENT OF		
ADMIN ADJUSTMENT EMISSIONS CONTROL - CONTRACTOR PAYMENTS	183,243	183,243
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,510,323	1,510,323
ADMIN ADJUSTMENT SAFE DRINKING WATER PROGRAM	39,790	39,790
AIR QUALITY PROGRAM-CONTINUING	186,035	-
AIR QUALITY PROGRAM-CONTINUING	182,451	-
EMISSIONS CAP AND TRADING PROGRAM	337,158	-
EMISSIONS CONTROL-CONTRACTOR PAYMENTS	21,119,500	20,489,510
OPERATING LUMP SUM APPROPRIATION	32,825,300	21,057,243
POLITICAL SUBDIVISION ASSISTANCE	18,500	-
ROADSIDE DIESEL EMISSIONS TEST	200,000	-
SAFE DRINKING WATER PROGRAM	1,800,000	1,583,876

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
SWEEPS	12,993,700	12,993,700
UNDERGROUND STORAGE TANK APPEALS	7,500	-
UST APPROPRIATION	22,000	-
VISIBILITY INDEX DEVELOPMENT	80,589	-
FINANCIAL INSTITUTIONS, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,342	4,342
OPERATING LUMP SUM APPROPRIATION	2,279,100	1,837,708
FUNERAL DIRECTORS AND EMBALMERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,945	1,945
OPERATING LUMP SUM APPROPRIATION	352,200	336,117
GAME AND FISH DEPARTMENT, ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	231,777	231,777
ADMIN ADJUSTMENT WATERCRAFT SAFETY EDUCATION PROGRAM	300	300
BLACK CANYON DAM MODIFICATIONS	357,383	235,700
BOAT SHADE CANOPIES	4,450	-
BUILDING RENEWAL	574,043	506,563
DAM MAINTENANCE	678,664	191,431
GAME AND FISH FY 2016 PSPRS	1,752,000	-
OPERATING LUMP SUM APPROPRIATION	40,845,400	35,471,815
PERFORMANCE INCENTIVE PAY	1,038,300	-
PROPERTY MAINTENANCE	27,120	22,082
RADIO TOWER	25,359	-
REGIONAL KINGMAN OFFICE REMODEL	660,976	146,588
WATERCRAFT GRANT PROGRAM	1,000,000	-
GAMING, DEPARTMENT OF		
ADDITIONAL OPERATING EXPENSES	800,400	-
ADMIN ADJUSTMENT CASINO OPERATION CERTIFICATION	2,501	2,501
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	57,967	57,967
ADMIN ADJUSTMENT PROBLEM GAMBLING	109,973	109,973
CASINO OPERATION CERTIFICATION	2,089,900	1,622,724
OPERATING LUMP SUM APPROPRIATION	11,189,700	10,060,625
PROBLEM GAMBLING	2,287,000	1,987,847
GOVERNOR, OFFICE OF THE		
OPERATING LUMP SUM APPROPRIATION	192,300	-
HEALTH SERVICES, DEPARTMENT OF		
ADMIN ADJUSTMENT AGENCYWIDE OPERATING LUMP SUM APPN	852,834	852,834
ADMIN ADJUSTMENT FOLIC ACID	3,718	3,718
ADMIN ADJUSTMENT NEWBORN SCREENING PROGRAM	451,266	451,266
ADMIN ADJUSTMENT RENAL DENTAL CARE AND NUTRITION SUPPLEMENT	75,000	75,000
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	18,823,300	15,311,593
ALZHEIMER DISEASE RESEARCH	1,000,000	1,000,000
CRISIS SERVICES	2,250,200	2,250,200
EMERGENCY MEDICAL SERVICES LOCAL ALLOCATION	442,000	399,027
FOLIC ACID	400,000	387,233
GENOMICS-BASED MEDICAL RESEARCH	3,002,500	2,493,750
HIGH RISK PERINATAL SERVICES	450,000	187,304
MEDICAID BEHAVIORAL HEALTH-TRADITIONAL	47,354,500	47,354,500
NEWBORN SCREENING PROGRAM	6,306,400	5,608,866
NURSING CARE SPECIAL PROJECTS	100,000	22,040
OPERATING LUMP SUM APPROPRIATION	38,200	-
RELIEF	1,135	1,135
RENAL DENTAL CARE AND NUTRITION SUPPLEMENT	300,000	225,000
HOMEOPATHIC AND INTEGRATED MEDICINE EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	257	257
OPERATING LUMP SUM APPROPRIATION	102,800	74,313
HOUSING, ARIZONA DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	318,500	318,473
INDUSTRIAL COMMISSION OF ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	111,278	111,278
OPERATING LUMP SUM APPROPRIATION	19,940,300	19,025,091

(continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
JUVENILE CORRECTIONS, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	11,720	11,720
OPERATING LUMP SUM APPROPRIATION	531,300	499,365
LAND DEPARTMENT, STATE		
NATURAL RESOURCE CONSERVATION DISTRICTS	260,500	150,000
MEDICAL EXAMINERS BOARD		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	104,735	104,735
CREDENTIALS VERIFICATION CONTRACT	120,689	120,133
OPERATING LUMP SUM APPROPRIATION	6,426,000	6,103,298
PERFORMANCE BASED INCENTIVE PROGRAM	165,000	144,164
MINE INSPECTOR, STATE		
ADMIN ADJUSTMENT AGGREGATE MINED LAND RECLAMATION	1,016	1,016
AGGREGATE MINED LAND RECLAMATION	112,800	30,343
NATUROPATHIC PHYSICIANS MEDICAL BOARD		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,334	1,334
OPERATING LUMP SUM APPROPRIATION	179,700	163,652
NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA		
ADMIN ADJUSTMENT LEGAL EXPENSES SUPPLEMENTAL	342,835	342,835
OPERATING LUMP SUM APPROPRIATION	200,000	170,909
NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS, BOARD OF EXAMINERS OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	792	792
OPERATING LUMP SUM APPROPRIATION	422,100	379,513
NURSING, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	23,795	23,795
CERTIFIED NURSING PROGRAM	536,700	468,817
OPERATING LUMP SUM APPROPRIATION	4,265,900	4,233,003
OCCUPATIONAL THERAPY EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	564	564
OPERATING LUMP SUM APPROPRIATION	172,000	169,205
OPTICIANS, STATE BOARD OF DISPENSING		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	162	162
OPERATING LUMP SUM APPROPRIATION	136,800	119,221
OPTOMETRY, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	5,105	5,105
OPERATING LUMP SUM APPROPRIATION	230,200	198,944
OSTEOPATHIC EXAMINERS, ARIZONA BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	10,040	10,040
OPERATING LUMP SUM APPROPRIATION	803,700	756,235
PEST MANAGEMENT, OFFICE OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,465	1,465
OPERATING LUMP SUM APPROPRIATION	1,699,500	1,373,555
PHARMACY, ARIZONA STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	71,605	71,605
ARIZONA POISON AND DRUG INFORMATION CENTER	125,000	125,000
CONTROLLED SUBSTANCE PRESCRIPTION MONITORING PROGRAM	395,795	395,795
ONE TIME FUNDING LEAVE PAYOUT	26,685	-
OPERATING LUMP SUM APPROPRIATION	2,020,500	1,994,872
PHYSICAL THERAPY EXAMINERS, BOARD OF		
OPERATING LUMP SUM APPROPRIATION	480,400	438,739
PODIATRY EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	9,356	9,356
OPERATING LUMP SUM APPROPRIATION	148,200	118,697
PRIVATE POSTSECONDARY EDUCATION, STATE BOARD FOR		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,289	4,289
OPERATING LUMP SUM APPROPRIATION	396,300	391,891
STUDENT TUITION RECOVERY	600,000	600,000
PSYCHOLOGIST EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	22,282	22,282
OPERATING LUMP SUM APPROPRIATION	448,500	415,304

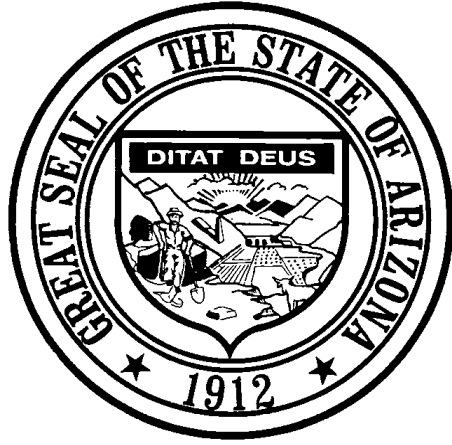
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STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
PUBLIC SAFETY, DEPARTMENT OF		
ACTIC	700,000	625,999
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	22,943	22,943
ADMIN ADJUSTMENT PUBLIC SAFETY EQUIPMENT SURCHARGE	291,330	291,330
MICROWAVE COMMUNICATION SYSTEM UPGRADE	2,000,000	9,150
MOTOR VEHICLE FUEL	2,700	2,654
OPERATING LUMP SUM APPROPRIATION	156,953,900	151,933,086
PUBLIC SAFETY EQUIPMENT	4,638,989	2,078,068
PUBLIC SAFETY EQUIPMENT SURCHARGE	2,890,000	2,072,724
SWEEPS	5,168,200	5,168,200
RADIATION REGULATORY AGENCY		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,170	2,170
OPERATING LUMP SUM APPROPRIATION	272,500	228,225
RESIDENTIAL UTILITY CONSUMER OFFICE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,310	4,310
OPERATING LUMP SUM APPROPRIATION	1,190,000	1,063,116
PROFESSIONAL WITNESSES	333,565	158,885
RESPIRATORY CARE EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	865	865
OPERATING LUMP SUM APPROPRIATION	300,100	290,793
REVENUE, DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	678,900	630,531
SUPREME COURT		
ADMIN ADJUSTMENT AUTOMATION	2,324	2,324
ADMIN ADJUSTMENT CASE AND CASH MANAGEMENT SYSTEM	5,999	5,999
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	171,808	171,808
ADMIN ADJUSTMENT STATE AID	11,338	11,338
ADULT INTENSIVE PROBATION	1,567,937	1,562,518
ADULT STANDARD PROBATION	4,205,809	4,205,809
AUTOMATION	13,133,900	10,385,417
CENTRALIZED SERVICE PAYMENTS	85,000	34,159
COMMUNITY PUNISHMENT	2,310,300	1,407,911
COURT APPOINTED SPECIAL ADVOCATE	2,862,500	2,600,946
INTERSTATE COMPACT	143,254	143,254
JUVENILE CRIME REDUCTION	3,308,000	1,559,431
OPERATING LUMP SUM	446,300	362,705
OPERATING LUMP SUM APPROPRIATION	3,110,100	2,186,385
STATE AID	5,648,400	4,484,164
SWEEPS	2,000,000	2,000,000
TECHNICAL REGISTRATION, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	62,381	62,381
OPERATING LUMP SUM APPROPRIATION	2,122,600	1,986,698
TREASURER, STATE		
LAW ENFORCEMENT AND BOAT SAFETY	2,183,800	-
VETERANS' SERVICES, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,128	4,128
OPERATING LUMP SUM APPROPRIATION	902,900	422,184
VETERINARY MEDICAL EXAMINING BOARD, ARIZONA STATE		
OPERATING LUMP SUM APPROPRIATION	545,200	464,969
WATER RESOURCES, DEPARTMENT OF		
ASSURED AND ADEQUATE WATER SUPPLY ADMIN	266,600	26,625
OPERATING LUMP SUM	1,448,500	-
OPERATING LUMP SUM APPROPRIATION	641,200	539,743
WEIGHTS AND MEASURES, DEPARTMENT OF		
ADMIN ADJUSTMENT GENERAL SERVICES	2,126	2,126
ADMIN ADJUSTMENT OXYGENATED FUEL	14,943	14,943
ADMIN ADJUSTMENT VAPOR RECOVERY	8,478	8,478
GENERAL SERVICES	329,400	178,182
OXYGENATED FUEL	786,300	772,474
VAPOR RECOVERY	653,500	602,700
TOTAL NON-MAJOR SPECIAL REVENUE FUNDS BUDGETARY EXPENDITURES	\$ 1,149,968,714	\$ 990,703,347

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 LAND ENDOWMENTS FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CORRECTIONS, STATE DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	\$ 18,736	\$ 18,736
INMATE HEALTH CARE CONTRACTED SERVICES	1,500,000	1,500,000
OPERATING LUMP SUM APPROPRIATION	361,200	296,928
PRIVATE PRISON PER DIEM	979,200	979,200
DEAF AND BLIND, ARIZONA SCHOOLS FOR THE		
ADMIN ADJUSTMENT PRESCHOOL-OUTREACH PROGRAMS	115,049	115,049
PHOENIX DAY SCHOOL FOR THE DEAF	5,382,944	5,261,378
PRESCHOOL-OUTREACH PROGRAMS	2,877,198	2,818,698
TUCSON CAMPUS	3,761,258	3,283,753
EDUCATION, DEPARTMENT OF		
BASIC STATE AID ENTITLEMENT	219,440,500	219,440,487
HEALTH SERVICES, DEPARTMENT OF		
ADMIN ADJUSTMENT ARIZONA STATE HOSPITAL - OPERATING	64,956	64,956
ARIZONA STATE HOSPITAL - OPERATING	650,000	601,389
JUVENILE CORRECTIONS, DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	2,000,100	1,972,902
LAND DEPARTMENT, STATE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	29,351	29,351
ADMIN ADJUSTMENT SCANNING AND DIGITIZING TRUST RECORDS	48,042	48,042
OPERATING LUMP SUM APPROPRIATION	3,764,900	1,716,889
PIONEERS' HOME, ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	104,270	104,270
ADMIN ADJUSTMENT PRESCRIPTION DRUGS	9,002	9,002
OPERATING LUMP SUM APPROPRIATION	6,004,900	5,609,064
PRESCRIPTION DRUGS	200,000	136,158
TOTAL LAND ENDOWMENTS FUNDS BUDGETARY EXPENDITURES	\$ 247,311,606	\$ 244,006,252



NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS

The Lottery Fund administers the payment of principal and interest on the Lottery Revenue Bonds issued by the State of Arizona (acting by and through the Director of the Department of Administration).

The Department of Transportation Fund administers the payment of principal and interest on the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board.

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

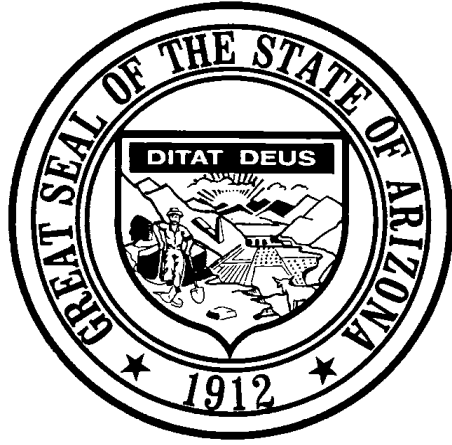
The School Facilities Debt Instrument Fund administers the payment of principal and interest on revenue bonds issued by the State of Arizona's School Facilities Board and the retirement of previously issued revenue bonds.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
ASSETS					
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ 8,930	\$ 742	\$ 9,672
Due from other Funds	3,751	-	-	-	3,751
Restricted assets:					
Cash and pooled investments with State Treasurer	-	233	-	31,254	31,487
Cash held by trustee	-	-	7,706	22,153	29,859
Total Assets	\$ 3,751	\$ 233	\$ 16,636	\$ 54,149	\$ 74,769
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued liabilities	\$ -	\$ -	\$ 1,947	\$ -	\$ 1,947
Total Liabilities	-	-	1,947	-	1,947
Fund Balances:					
Restricted	\$ 3,751	\$ 233	\$ 14,689	\$ 54,149	\$ 72,822
Total Liabilities and Fund Balances	\$ 3,751	\$ 233	\$ 16,636	\$ 54,149	\$ 74,769

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
REVENUES					
Sales taxes	\$ -	\$ -	\$ -	\$ 64,147	\$ 64,147
Earnings on investments	-	754	-	1,016	1,770
Other	-	20	129	-	149
Total Revenues	-	774	129	65,163	66,066
EXPENDITURES					
Current:					
General government	-	-	3,832	-	3,832
Debt service:					
Principal	19,205	183,130	59,905	86,330	348,570
Interest and other fiscal charges	18,297	121,858	54,213	7,532	201,900
Total Expenditures	37,502	304,988	117,950	93,862	554,302
(Deficiency) of Revenues Over Expenditures	(37,502)	(304,214)	(117,821)	(28,699)	(488,236)
OTHER FINANCING SOURCES (USES)					
Transfers in	37,502	304,311	130,992	30,640	503,445
Refunding certificates of participation issued	-	-	163,995	-	163,995
Payment to refunded certificates of participation escrow agent	-	-	(126,596)	-	(126,596)
Payment to refunded bond escrow agent	-	-	(62,630)	-	(62,630)
Premium on debt issued	-	-	25,435	-	25,435
Total Other Financing Sources (Uses)	37,502	304,311	131,196	30,640	503,649
Net Change in Fund Balances	-	97	13,375	1,941	15,413
Fund Balances - Beginning	3,751	136	1,314	52,208	57,409
Fund Balances - Ending	\$ 3,751	\$ 233	\$ 14,689	\$ 54,149	\$ 72,822



NON-MAJOR GOVERNMENTAL FUND CAPITAL PROJECTS FUND

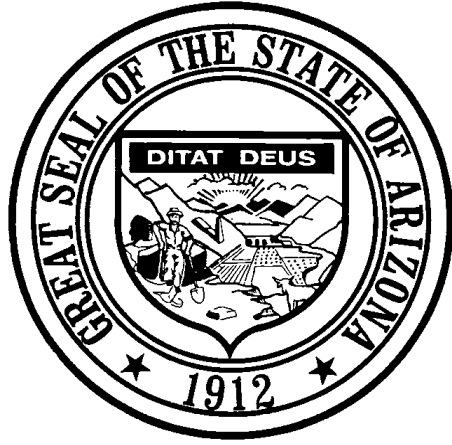
The Department of Transportation Financed Fund administers the proceeds from the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board. These monies are expended for the construction of projects in the Five-Year Transportation Facilities Construction Program.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUND
JUNE 30, 2016
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED
	<u> </u>
ASSETS	
Collateral investment pool	\$ 2,130
Restricted assets:	
Cash and pooled investments with State Treasurer	<u>145,195</u>
Total Assets	<u>\$ 147,325</u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and other current liabilities	\$ 5,842
Accrued liabilities	69
Obligations under securities loan agreements	<u>2,130</u>
Total Liabilities	<u>8,041</u>
Fund Balances:	
Restricted	<u>\$ 139,284</u>
Total Fund Balances	<u>139,284</u>
Total Fund Balances	<u>\$ 147,325</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED
	<u> </u>
REVENUES	
Earnings on investments	\$ 2,023
Total Revenues	<u>2,023</u>
EXPENDITURES	
Current:	
Transportation	16,109
Intergovernmental revenue sharing	8
Capital outlay	51,643
Total Expenditures	<u>67,760</u>
(Deficiency) of Revenues Over Expenditures	<u>(65,737)</u>
Fund Balances - Beginning	<u>205,021</u>
Fund Balances - Ending	<u>\$ 139,284</u>



NON-MAJOR ENTERPRISE FUNDS

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

The Insurance Department Guaranty Funds pay for claims against insolvent insurance companies under certain property and casualty insurance contracts (also includes return of unearned premiums) and contractual obligations under certain life, annuity and disability insurance contracts.

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

The Lottery Fund accounts for the revenues received from the sale of lottery tickets, the receipt of license fees, prize payments, operational expenses, including consulting, promotional, and advertising expenses, and transfers of monies to other state funds.

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

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

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

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

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

The Other Enterprise Funds consist of the Veterans Administration Reimbursement Fund, the State Home for Veterans Trust Fund, and the Tonto Natural Bridge Publications and Souvenirs Revolving Fund.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
ASSETS				
Current Assets:				
Cash	\$ 1,016	\$ 3,567	\$ -	\$ 50
Cash with U.S. Treasury	-	-	-	-
Cash and pooled investments with State Treasurer	134	1,991	91,528	9,855
Restricted cash and pooled investments with State Treasurer	-	-	-	-
Collateral investment pool	-	-	-	-
Short-term investments	202,468	-	-	-
Receivables, net of allowances:				
Taxes	-	-	-	-
Interest	-	1	-	-
Other	-	1,595	12,697	5,618
Due from U.S. Government	-	73	-	-
Due from other Funds	-	8	-	-
Inventories, at cost	-	1,900	4,842	3,887
Other current assets	-	145	-	135
Total Current Assets	<u>203,618</u>	<u>9,280</u>	<u>109,067</u>	<u>19,545</u>
Noncurrent Assets:				
Investments	68,991	-	-	-
Other noncurrent assets	-	-	9,575	-
Capital assets:				
Land and other non-depreciable	-	182	938	744
Buildings, equipment, and other depreciable, net of accumulated depreciation	-	1,224	2,741	3,883
Total Noncurrent Assets	<u>68,991</u>	<u>1,406</u>	<u>13,254</u>	<u>4,627</u>
Total Assets	<u>272,609</u>	<u>10,686</u>	<u>122,321</u>	<u>24,172</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	-	778	541	737

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 313	\$ 23,330	\$ -	\$ -	\$ -	\$ 28,276
-	-	332,677	-	-	332,677
3,742	1,220	-	-	9,054	117,524
-	-	-	59,293	-	59,293
-	28,135	-	-	-	28,135
-	-	-	-	-	202,468
-	-	95,957	-	-	95,957
-	1,631	-	-	-	1,632
4	1,239	11,027	-	3,030	35,210
-	-	-	-	-	73
-	-	-	-	167	175
-	-	-	-	-	10,629
-	-	-	-	-	280
<u>4,059</u>	<u>55,555</u>	<u>439,661</u>	<u>59,293</u>	<u>12,251</u>	<u>912,329</u>
-	263,494	-	-	-	332,485
-	-	-	-	-	9,575
70	2,996	-	-	1,527	6,457
6,163	3,082	-	-	6,246	23,339
<u>6,233</u>	<u>269,572</u>	<u>-</u>	<u>-</u>	<u>7,773</u>	<u>371,856</u>
<u>10,292</u>	<u>325,127</u>	<u>439,661</u>	<u>59,293</u>	<u>20,024</u>	<u>1,284,185</u>
<u>380</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,961</u>	<u>5,397</u>

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ -	\$ 416	\$ 7,017	\$ 2,227
Payable for securities purchased	-	-	-	-
Accrued liabilities	-	255	-	524
Obligations under securities loan agreements	-	-	-	-
Tax refunds payable	-	-	-	-
Due to U.S. Government	-	-	-	-
Due to others	-	-	41,067	-
Due to component units	-	-	3,500	-
Due to other Funds	-	-	60,133	-
Unearned revenue	-	75	-	66
Current portion of accrued insurance losses	12,805	-	-	-
Current portion of other long-term liabilities	-	226	209	509
Total Current Liabilities	12,805	972	111,926	3,326
Noncurrent Liabilities:				
Accrued insurance losses	136,113	-	-	-
Net OPEB obligation	-	161	192	404
Net pension liability	-	6,593	6,539	7,419
Other long-term liabilities	-	106	-	-
Total Noncurrent Liabilities	136,113	6,860	6,731	7,823
Total Liabilities	148,918	7,832	118,657	11,149
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	-	557	724	656
NET POSITION				
Net investment in capital assets	-	1,406	3,679	4,627
Restricted for:				
Unemployment Compensation	-	-	-	-
Loans and other financial assistance:				
Expendable	-	-	-	-
Other	123,691	-	-	-
Unrestricted (deficit)	-	1,669	(198)	8,477
Total Net Position	\$ 123,691	\$ 3,075	\$ 3,481	\$ 13,104

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 137	\$ 1,267	\$ 3	\$ -	\$ 809	\$ 11,876
-	1,483	-	-	-	1,483
109	-	34,654	-	586	36,128
-	28,135	-	-	-	28,135
-	327	-	-	-	327
-	-	35	-	-	35
-	-	13,139	-	-	54,206
-	-	-	-	-	3,500
-	1	385	-	-	60,519
9	-	-	-	-	150
-	15,395	-	-	-	28,200
141	-	-	-	518	1,603
<u>396</u>	<u>46,608</u>	<u>48,216</u>	<u>-</u>	<u>1,913</u>	<u>226,162</u>
-	216,227	-	-	-	352,340
73	-	-	-	634	1,464
3,002	-	-	-	19,156	42,709
-	-	-	-	-	106
<u>3,075</u>	<u>216,227</u>	<u>-</u>	<u>-</u>	<u>19,790</u>	<u>396,619</u>
<u>3,471</u>	<u>262,835</u>	<u>48,216</u>	<u>-</u>	<u>21,703</u>	<u>622,781</u>
276	-	-	-	1,691	3,904
6,233	6,078	-	-	7,773	29,796
-	-	391,445	-	-	391,445
-	-	-	59,293	-	59,293
-	-	-	-	-	123,691
692	56,214	-	-	(8,182)	58,672
<u>\$ 6,925</u>	<u>\$ 62,292</u>	<u>\$ 391,445</u>	<u>\$ 59,293</u>	<u>\$ (409)</u>	<u>\$ 662,897</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION**
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

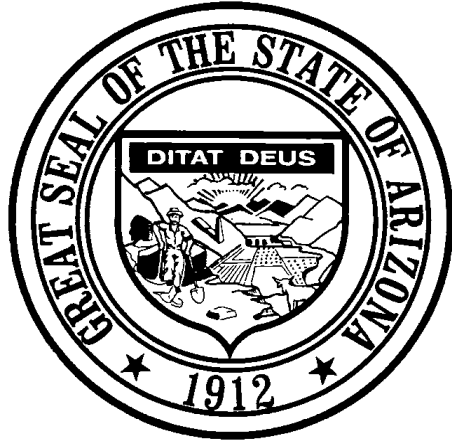
	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
OPERATING REVENUES				
Sales and charges for services	\$ -	\$ 18,094	\$ 870,946	\$ 41,586
Unemployment assessments	-	-	-	-
Workers' compensation assessments	-	-	-	-
Intergovernmental	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Settlement income	2,139	-	-	-
Other	-	14	194	-
Total Operating Revenues	<u>2,139</u>	<u>18,108</u>	<u>871,140</u>	<u>41,586</u>
OPERATING EXPENSES				
Cost of sales and benefits	(89,458)	8,894	640,636	31,791
Personal services	436	5,827	5,384	6,411
Contractual services	67	2,002	12,199	-
Depreciation and amortization	-	344	269	745
Insurance	-	-	33	-
Other	123	744	2,049	-
Total Operating Expenses	<u>(88,832)</u>	<u>17,811</u>	<u>660,570</u>	<u>38,947</u>
Operating Income (Loss)	<u>90,971</u>	<u>297</u>	<u>210,570</u>	<u>2,639</u>
NON-OPERATING REVENUES (EXPENSES)				
Loss on sale of capital assets	-	-	-	(27)
Investment income	796	14	31	32
Other non-operating revenue	-	-	-	-
Distributions	-	-	(15,002)	-
Other non-operating expense	(290)	-	-	-
Total Non-Operating Revenues (Expenses)	<u>506</u>	<u>14</u>	<u>(14,971)</u>	<u>5</u>
Income (Loss) Before Contributions and Transfers	91,477	311	195,599	2,644
Capital grants and contributions	-	-	-	-
Transfers out	(58)	-	(190,827)	(1,500)
Change in Net Position	91,419	311	4,772	1,144
Total Net Position - Beginning, as restated	<u>32,272</u>	<u>2,764</u>	<u>(1,291)</u>	<u>11,960</u>
Total Net Position - Ending	<u>\$ 123,691</u>	<u>\$ 3,075</u>	<u>\$ 3,481</u>	<u>\$ 13,104</u>

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 12,493	\$ -	\$ -	\$ -	\$ 33,333	\$ 976,452
-	-	482,955	-	-	482,955
-	3,928	-	-	-	3,928
-	-	729	-	-	729
-	-	2,056	-	-	2,056
-	609	-	-	-	2,748
36	-	63	-	46	353
<u>12,529</u>	<u>4,537</u>	<u>485,803</u>	<u>-</u>	<u>33,379</u>	<u>1,469,221</u>
1,302	23,808	291,271	-	42	908,286
4,574	-	-	-	19,633	42,265
3,837	-	-	-	7,571	25,676
1,464	5,499	-	-	354	8,675
271	-	-	-	236	540
3,137	-	24	-	4,910	10,987
<u>14,585</u>	<u>29,307</u>	<u>291,295</u>	<u>-</u>	<u>32,746</u>	<u>996,429</u>
<u>(2,056)</u>	<u>(24,770)</u>	<u>194,508</u>	<u>-</u>	<u>633</u>	<u>472,792</u>
-	-	-	-	-	(27)
8	6,751	3,431	560	48	11,671
-	2,257	-	-	-	2,257
-	-	-	-	-	(15,002)
-	(3,183)	-	(37)	-	(3,510)
<u>8</u>	<u>5,825</u>	<u>3,431</u>	<u>523</u>	<u>48</u>	<u>(4,611)</u>
(2,048)	(18,945)	197,939	523	681	468,181
-	-	-	-	548	548
<u>(43)</u>	<u>-</u>	<u>(4,164)</u>	<u>(20,000)</u>	<u>-</u>	<u>(216,592)</u>
(2,091)	(18,945)	193,775	(19,477)	1,229	252,137
<u>9,016</u>	<u>81,237</u>	<u>197,670</u>	<u>78,770</u>	<u>(1,638)</u>	<u>410,760</u>
<u>\$ 6,925</u>	<u>\$ 62,292</u>	<u>\$ 391,445</u>	<u>\$ 59,293</u>	<u>\$ (409)</u>	<u>\$ 662,897</u>

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 17,446	\$ 385,554	\$ 42,321
Receipts from assessments	-	-	-	-
Receipts from grants and contracts	-	-	-	-
Receipts from settlement income	2,139	-	-	-
Payments to suppliers, prize winners, claimants, or insurance companies	(13,386)	(11,304)	(161,145)	(15,815)
Payments to employees	(436)	(6,217)	(5,361)	(21,369)
Other receipts	-	14	-	-
Net Cash Provided (Used) by Operating Activities	(11,683)	(61)	219,048	5,137
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Distributions	-	-	(14,944)	-
Transfers to other Funds	(58)	-	(154,699)	(1,500)
Net Cash (Used) by Non-capital Financing Activities	(58)	-	(169,643)	(1,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	-	-	2
Receipts from grants and contributions	-	-	-	-
Acquisition and construction of capital assets	-	(85)	(442)	(1,112)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(85)	(442)	(1,110)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	553,698	-	-	-
Interest and dividends from investments	506	14	18	32
Change in cash collateral received from securities lending transactions	-	-	-	-
Purchase of investments	(541,903)	-	-	-
Net Cash Provided (Used) by Investing Activities	12,301	14	18	32
Net Increase (Decrease) in Cash and Cash Equivalents	560	(132)	48,981	2,559
Cash and Cash Equivalents - Beginning, as restated	590	5,690	42,547	7,346
Cash and Cash Equivalents - Ending	\$ 1,150	\$ 5,558	\$ 91,528	\$ 9,905
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 90,971	\$ 297	\$ 210,570	\$ 2,639
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	-	344	269	745
Miscellaneous income	-	-	-	-
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	-	(622)	(4,138)	732
(Increase) decrease in due from other Funds	-	-	-	-
(Increase) decrease in inventories, at cost	-	367	(59)	584
(Increase) decrease in other assets	-	(17)	297	(85)
Decrease in deferred pension outflows of resources	-	94	199	196
Increase (decrease) in accounts payable	-	(14)	4,355	(63)
Increase in accrued liabilities	-	10	7,687	99
(Decrease) in due to U.S. Government	-	-	-	-
(Decrease) in due to other Funds	-	-	-	-
(Decrease) in due to others	-	-	-	-
Increase (decrease) in unearned revenue	-	(26)	-	66
Increase (decrease) in accrued insurance losses	(102,654)	-	-	-
Increase in net OPEB obligation	-	161	192	404
Increase (decrease) in net pension liability	-	(65)	259	408
Increase (decrease) in other liabilities	-	17	-	(18)
(Decrease) in deferred pension inflows of resources	-	(607)	(583)	(570)
Net Cash Provided (Used) by Operating Activities	\$ (11,683)	\$ (61)	\$ 219,048	\$ 5,137
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
(Loss) on disposal of capital assets, net	\$ -	\$ -	\$ -	\$ (27)
(Decrease) in fair value of investments	(2,027)	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ (2,027)	\$ -	\$ -	\$ (27)

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 12,441	\$ -	\$ -	\$ -	\$ 33,105	\$ 490,867
-	5,144	484,087	-	-	489,231
-	-	729	-	-	729
-	609	-	-	-	2,748
(8,409)	(16,264)	(288,552)	-	(12,363)	(527,238)
(4,575)	-	-	-	(18,386)	(56,344)
1,672	2,257	2,095	37	46	6,121
1,129	(8,254)	198,359	37	2,402	406,114
-	-	-	-	-	(14,944)
(43)	-	(4,211)	(20,000)	-	(180,511)
(43)	-	(4,211)	(20,000)	-	(195,455)
-	-	-	-	-	2
-	-	-	-	548	548
(479)	-	-	-	(544)	(2,662)
(479)	-	-	-	4	(2,112)
-	107,614	-	-	-	661,312
8	8,671	3,431	523	50	13,253
-	3,796	-	(1,900)	-	1,896
-	(118,492)	-	-	-	(660,395)
8	1,589	3,431	(1,377)	50	16,066
615	(6,665)	197,579	(21,340)	2,456	224,613
3,440	59,350	135,098	80,633	6,598	341,292
\$ 4,055	\$ 52,685	\$ 332,677	\$ 59,293	\$ 9,054	\$ 565,905
\$ (2,056)	\$ (24,770)	\$ 194,508	\$ -	\$ 633	\$ 472,792
1,464	5,499	-	-	354	8,675
1,636	295	-	-	-	1,931
(1)	1,912	756	-	(176)	(1,537)
-	-	-	37	(52)	(15)
-	-	-	-	-	892
-	-	-	-	-	195
99	-	-	-	1,320	1,908
65	(3,658)	-	-	396	1,081
42	-	3,195	-	81	11,114
-	-	(51)	-	-	(51)
-	(55)	-	-	-	(55)
-	-	(49)	-	-	(49)
(51)	(68)	-	-	-	(79)
-	12,591	-	-	-	(90,063)
73	-	-	-	634	1,464
122	-	-	-	719	1,443
(36)	-	-	-	26	(11)
(228)	-	-	-	(1,533)	(3,521)
\$ 1,129	\$ (8,254)	\$ 198,359	\$ 37	\$ 2,402	\$ 406,114
\$ -	\$ -	\$ -	\$ -	\$ -	\$ (27)
-	(3,249)	-	-	-	(5,276)
\$ -	\$ (3,249)	\$ -	\$ -	\$ -	\$ (5,303)



INTERNAL SERVICE FUNDS

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

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

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

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

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

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

The Retiree Accumulated 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.

The Other Internal Service Funds consist of the Personnel Division Funds, the Information Technology Fund, the Special Services Fund, the Surplus Property Funds, the Legal Services Cost Allocation Fund, the Stimulus Statewide Administration Funds, and the Construction Insurance Fund.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
ASSETS				
Current Assets:				
Cash and pooled investments with State Treasurer	\$ 76,707	\$ 1,343	\$ 314,574	\$ 790
Receivables, net of allowances:				
Other	-	29	31,263	149
Due from U.S. Government	-	-	5,192	-
Due from other Funds	-	-	-	-
Inventories, at cost	-	2,518	-	-
Other current assets	3,060	-	10,108	-
Total Current Assets	<u>79,767</u>	<u>3,890</u>	<u>361,137</u>	<u>939</u>
Noncurrent Assets:				
Capital assets:				
Buildings, equipment, and other depreciable, net of accumulated depreciation	33	65,499	9	155
Total Noncurrent Assets	<u>33</u>	<u>65,499</u>	<u>9</u>	<u>155</u>
Total Assets	<u>79,800</u>	<u>69,389</u>	<u>361,146</u>	<u>1,094</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	<u>1,836</u>	<u>1,437</u>	<u>378</u>	<u>164</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	1,778	142	141,301	19
Accrued liabilities	408	431	87	26
Due to other Funds	-	-	-	-
Current portion of accrued insurance losses	67,771	-	-	-
Current portion of long-term debt	-	-	-	-
Current portion of other long-term liabilities	634	730	136	-
Total Current Liabilities	<u>70,591</u>	<u>1,303</u>	<u>141,524</u>	<u>45</u>
Noncurrent Liabilities:				
Accrued insurance losses	372,809	-	-	-
Net OPEB obligation	326	461	87	25
Net pension liability	14,083	14,516	2,560	1,238
Long-term debt	-	-	-	-
Other long-term liabilities	-	-	-	-
Total Noncurrent Liabilities	<u>387,218</u>	<u>14,977</u>	<u>2,647</u>	<u>1,263</u>
Total Liabilities	<u>457,809</u>	<u>16,280</u>	<u>144,171</u>	<u>1,308</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	<u>1,189</u>	<u>1,295</u>	<u>216</u>	<u>105</u>
NET POSITION				
Net investment in capital assets	33	64,902	9	155
Unrestricted (deficit)	<u>(377,395)</u>	<u>(11,651)</u>	<u>217,128</u>	<u>(310)</u>
Total Net Position	<u>\$ (377,362)</u>	<u>\$ 53,251</u>	<u>\$ 217,137</u>	<u>\$ (155)</u>

AUTOMATION OPERATIONS	RETIREE SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 14,418	\$ 3,924	\$ 2,210	\$ 21,148	\$ 435,114
925	-	874	80	33,320
-	-	-	-	5,192
1,501	-	13	2	1,516
-	-	8	34	2,560
1,537	-	5	-	14,710
<u>18,381</u>	<u>3,924</u>	<u>3,110</u>	<u>21,264</u>	<u>492,412</u>
4,755	-	11,382	602	82,435
<u>4,755</u>	<u>-</u>	<u>11,382</u>	<u>602</u>	<u>82,435</u>
<u>23,136</u>	<u>3,924</u>	<u>14,492</u>	<u>21,866</u>	<u>574,847</u>
1,288	-	106	1,955	7,164
407	-	319	275	144,241
210	-	18	389	1,569
-	-	-	33	33
-	-	-	-	67,771
907	-	459	-	1,366
472	11,114	39	773	13,898
<u>1,996</u>	<u>11,114</u>	<u>835</u>	<u>1,470</u>	<u>228,878</u>
-	-	-	-	372,809
212	3	14	279	1,407
9,295	-	846	14,791	57,329
2,313	-	983	-	3,296
-	145,922	-	-	145,922
<u>11,820</u>	<u>145,925</u>	<u>1,843</u>	<u>15,070</u>	<u>580,763</u>
<u>13,816</u>	<u>157,039</u>	<u>2,678</u>	<u>16,540</u>	<u>809,641</u>
785	-	71	1,252	4,913
4,755	-	11,382	602	81,838
<u>5,068</u>	<u>(153,115)</u>	<u>467</u>	<u>5,427</u>	<u>(314,381)</u>
<u>\$ 9,823</u>	<u>\$ (153,115)</u>	<u>\$ 11,849</u>	<u>\$ 6,029</u>	<u>\$ (232,543)</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION**
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

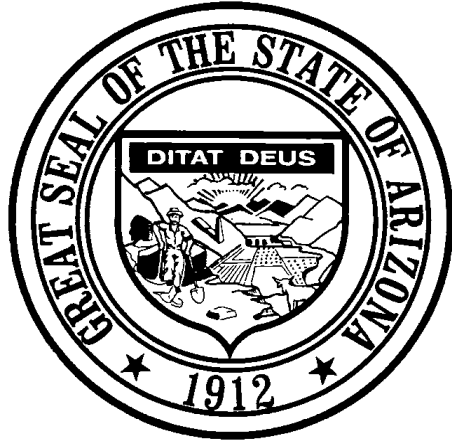
	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
OPERATING REVENUES				
Sales and charges for services	\$ 100,938	\$ 24,721	\$ 865,938	\$ 1,763
Other	1	12	132	-
Total Operating Revenues	<u>100,939</u>	<u>24,733</u>	<u>866,070</u>	<u>1,763</u>
OPERATING EXPENSES				
Cost of sales and benefits	-	10,252	863,647	21
Personal services	10,769	13,782	2,375	957
Contractual services	25,829	374	1,957	363
Depreciation and amortization	58	18,008	7	2
Insurance	38,684	-	6,464	13
Other	850	2,779	813	86
Total Operating Expenses	<u>76,190</u>	<u>45,195</u>	<u>875,263</u>	<u>1,442</u>
Operating Income (Loss)	<u>24,749</u>	<u>(20,462)</u>	<u>(9,193)</u>	<u>321</u>
NON-OPERATING REVENUES (EXPENSES)				
Gain on sale of capital assets	-	952	-	-
Investment income	-	13	-	-
Other non-operating revenue	-	262	-	12
Interest expense	-	(1)	-	-
Other non-operating expense	(3,608)	-	(519)	-
Total Non-Operating Revenues (Expenses)	<u>(3,608)</u>	<u>1,226</u>	<u>(519)</u>	<u>12</u>
Income (Loss) Before Contributions and Transfers	21,141	(19,236)	(9,712)	333
Capital grants and contributions	-	18,644	-	-
Transfers in	1,962	-	-	-
Transfers out	(2,300)	-	(4,354)	(48)
Change in Net Position	20,803	(592)	(14,066)	285
Total Net Position - Beginning, as restated	<u>(398,165)</u>	<u>53,843</u>	<u>231,203</u>	<u>(440)</u>
Total Net Position - Ending	<u>\$ (377,362)</u>	<u>\$ 53,251</u>	<u>\$ 217,137</u>	<u>\$ (155)</u>

AUTOMATION OPERATIONS	RETIREE SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 26,570	\$ 13,991	\$ 7,483	\$ 24,971	\$ 1,066,375
283	-	-	2,069	2,497
<u>26,853</u>	<u>13,991</u>	<u>7,483</u>	<u>27,040</u>	<u>1,068,872</u>
7,252	11,747	3,643	648	897,210
6,753	1,027	340	11,580	47,583
1,598	4	83	2,856	33,064
1,528	-	3,140	244	22,987
344	-	498	3,431	49,434
1,466	-	664	4,904	11,562
<u>18,941</u>	<u>12,778</u>	<u>8,368</u>	<u>23,663</u>	<u>1,061,840</u>
<u>7,912</u>	<u>1,213</u>	<u>(885)</u>	<u>3,377</u>	<u>7,032</u>
-	-	18	-	970
-	-	-	3	16
-	-	20	-	294
-	-	-	-	(1)
(249)	-	-	-	(4,376)
<u>(249)</u>	<u>-</u>	<u>38</u>	<u>3</u>	<u>(3,097)</u>
7,663	1,213	(847)	3,380	3,935
-	-	406	-	19,050
-	-	-	-	1,962
<u>(5,707)</u>	<u>-</u>	<u>-</u>	<u>(2,231)</u>	<u>(14,640)</u>
1,956	1,213	(441)	1,149	10,307
<u>7,867</u>	<u>(154,328)</u>	<u>12,290</u>	<u>4,880</u>	<u>(242,850)</u>
<u>\$ 9,823</u>	<u>\$ (153,115)</u>	<u>\$ 11,849</u>	<u>\$ 6,029</u>	<u>\$ (232,543)</u>

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services / premiums	\$ 100,939	\$ 25,290	\$ 835,154	\$ 1,763
Payments to suppliers or insurance companies	(92,612)	(14,005)	(852,687)	(464)
Payments to employees	(11,736)	(13,937)	(2,875)	(839)
Payments to retirees	-	-	-	-
Other receipts	1	12	54	12
Other payments	(3,608)	-	(519)	-
Net Cash Provided (Used) by Operating Activities	<u>(7,016)</u>	<u>(2,640)</u>	<u>(20,873)</u>	<u>472</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other Funds	1,962	-	-	-
Transfers to other Funds	(2,300)	-	(4,354)	(48)
Net Cash (Used) by Non-capital Financing Activities	<u>(338)</u>	<u>-</u>	<u>(4,354)</u>	<u>(48)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	2,244	-	12
Receipts from insurance recoveries	-	262	-	-
Acquisition and construction of capital assets	(25)	-	-	(169)
Interest paid on capital debt, installment purchase contracts, and capital leases	-	-	-	-
Principal paid on capital debt, installment purchase contracts, and capital leases	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(25)</u>	<u>2,506</u>	<u>-</u>	<u>(157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends from investments	-	12	-	-
Net Cash Provided by Investing Activities	<u>-</u>	<u>12</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,379)	(122)	(25,227)	267
Cash and Cash Equivalents - Beginning, as restated	84,086	1,465	339,801	523
Cash and Cash Equivalents - Ending	<u>\$ 76,707</u>	<u>\$ 1,343</u>	<u>\$ 314,574</u>	<u>\$ 790</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 24,749	\$ (20,462)	\$ (9,193)	\$ 321
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	58	18,008	7	2
Miscellaneous income (expense)	(3,608)	-	(519)	12
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	1	11	(25,663)	-
(Increase) in due from U.S. Government	-	-	(5,192)	-
Decrease in due from other Funds	-	-	-	-
Decrease in inventories, at cost	-	162	-	-
(Increase) decrease in other assets	902	-	(47)	-
Decrease in deferred pension outflows of resources	344	428	116	32
Increase (decrease) in accounts payable	(3,542)	(601)	20,234	19
Increase (decrease) in accrued liabilities	70	57	26	1
Increase (decrease) in due to other Funds	(7,800)	-	-	-
Increase (decrease) in unearned revenue	-	(32)	-	-
(Decrease) in accrued insurance losses	(16,809)	-	-	-
Increase in net OPEB obligation	326	461	87	25
Increase (decrease) in net pension liability	(307)	499	(411)	195
Increase (decrease) in other liabilities	(73)	(15)	(14)	(58)
(Decrease) in deferred pension inflows of resources	(1,327)	(1,156)	(304)	(77)
Net Cash Provided (Used) by Operating Activities	<u>\$ (7,016)</u>	<u>\$ (2,640)</u>	<u>\$ (20,873)</u>	<u>\$ 472</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
Contribution of capital assets from other Funds	\$ -	\$ 18,644	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ 18,644</u>	<u>\$ -</u>	<u>\$ -</u>

AUTOMATION OPERATIONS	RETIREE SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 27,228	\$ 13,991	\$ 7,442	\$ 32,771	\$ 1,044,578
(9,776)	(4)	(4,997)	(11,469)	(986,014)
(7,347)	(1,024)	(530)	(10,943)	(49,231)
-	(13,244)	-	-	(13,244)
-	-	20	2,069	2,168
(249)	-	-	-	(4,376)
<u>9,856</u>	<u>(281)</u>	<u>1,935</u>	<u>12,428</u>	<u>(6,119)</u>
-	-	-	-	1,962
(5,707)	-	-	(2,231)	(14,640)
<u>(5,707)</u>	<u>-</u>	<u>-</u>	<u>(2,231)</u>	<u>(12,678)</u>
-	-	20	-	2,276
-	-	-	-	262
(76)	-	(1,710)	(9)	(1,989)
(160)	-	(27)	-	(187)
(898)	-	(414)	-	(1,312)
<u>(1,134)</u>	<u>-</u>	<u>(2,131)</u>	<u>(9)</u>	<u>(950)</u>
-	-	-	3	15
-	-	-	3	15
3,015	(281)	(196)	10,191	(19,732)
<u>11,403</u>	<u>4,205</u>	<u>2,406</u>	<u>10,957</u>	<u>454,846</u>
<u>\$ 14,418</u>	<u>\$ 3,924</u>	<u>\$ 2,210</u>	<u>\$ 21,148</u>	<u>\$ 435,114</u>
\$ 7,912	\$ 1,213	\$ (885)	\$ 3,377	\$ 7,032
1,528	-	3,140	244	22,987
(89)	-	47	-	(4,157)
3	-	(332)	2	(25,978)
-	-	-	-	(5,192)
372	-	291	7,798	8,461
-	-	27	68	257
382	-	11	58	1,306
377	-	60	442	1,799
311	-	(174)	211	16,458
17	-	1	(704)	(532)
-	-	-	33	(7,767)
31	-	-	-	(1)
-	-	-	-	(16,809)
212	3	14	279	1,407
(304)	-	(157)	1,006	521
(2)	(1,497)	(4)	773	(890)
(894)	-	(104)	(1,159)	(5,021)
<u>9,856</u>	<u>(281)</u>	<u>1,935</u>	<u>12,428</u>	<u>(6,119)</u>
\$ -	\$ -	\$ 406	\$ -	\$ 19,050
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 406</u>	<u>\$ -</u>	<u>\$ 19,050</u>



PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

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

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

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

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

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

- **The Administrative Office of the Courts Probation Officers (AOC)** is a cost-sharing, multiple-employer pension plan within CORP that benefits county probation officers.

Other Employee Benefit Trust Funds account for health insurance premium subsidies paid by the ASRS, PSPRS, EORP, CORP, and AOC, as well as long-term disability benefits paid by the ASRS to State employees and employees of other governmental entities participating in the plans.

The ASRS 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 ASRS 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.

The PSPRS Health Benefit Supplement Fund is a benefit agent multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The EORP 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 CORP Health Benefit Supplement Fund is a benefit agent multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The AOC 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.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
JUNE 30, 2016
(Expressed in Thousands)

	PENSION TRUST FUNDS				
	ASRS	PSPRS	EORP	CORP	AOC
ASSETS					
Cash	\$ 9,696	\$ 228,924	\$ 11,656	\$ 45,599	\$ 12,870
Receivables, net of allowances:					
Accrued interest and dividends	48,138	5,321	254	1,076	304
Securities sold	822,847	18,218	871	3,683	1,040
Futures contracts receivable	26,916	-	-	-	-
Contributions	64,542	6,977	582	1,289	1,011
Court fees	-	-	739	-	-
Due from other Funds	2,967	-	-	-	-
Other	606	17,495	1,044	79	22
Total receivables	966,016	48,011	3,490	6,127	2,377
Investments, at fair value:					
Short-term investments	828,304	-	-	-	-
Fixed income securities	8,934,482	358,515	17,133	72,481	20,457
Corporate stocks	17,932,143	1,720,722	82,233	347,880	98,183
Multi-asset	976,903	538,038	25,713	108,776	30,700
Real assets	-	576,694	27,560	116,591	32,906
Real estate	3,217,229	572,200	27,345	115,682	32,649
Private equity	-	919,062	44,256	186,863	52,739
Private credit	-	619,479	29,271	124,186	35,049
Collateral investment pool	275,684	296,477	14,169	59,939	16,917
Other investments	498,479	470,887	22,504	95,200	26,868
Total investments	32,663,224	6,072,074	290,184	1,227,598	346,468
Property and equipment, net of accumulated depreciation	-	3,216	222	441	125
Total Assets	33,638,936	6,352,225	305,552	1,279,765	361,840
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	-	705	35	145	41
LIABILITIES					
Accounts payable and other current liabilities	20,607	476	1,771	7,126	2,012
Payable for securities purchased	454,264	8,100	388	1,640	463
Obligation under securities loan agreements	275,684	296,448	14,167	59,931	16,914
Futures contracts payable	14,799	-	-	-	-
Due to other Funds	13,791	-	-	-	-
Net pension liability	-	4,962	243	1,021	288
Total Liabilities	779,145	309,986	16,569	69,718	19,677
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	-	467	23	96	27
NET POSITION					
Restricted for:					
Pension benefits	32,859,791	6,042,477	288,995	1,210,096	342,177
Other post-employment benefits	-	-	-	-	-
Total Net Position	\$ 32,859,791	\$ 6,042,477	\$ 288,995	\$ 1,210,096	\$ 342,177

OTHER EMPLOYEE BENEFIT TRUST FUNDS

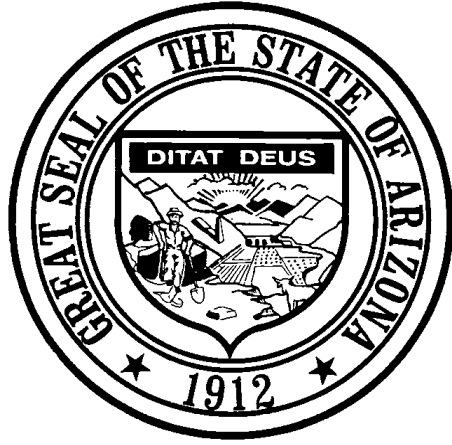
ASRS		ASRS		PSPRS		EORP		CORP		AOC		TOTAL
HEALTH BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	HEALTH BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	HEALTH BENEFIT SUPPLEMENT FUND	HEALTH BENEFIT SUPPLEMENT FUND	HEALTH BENEFIT SUPPLEMENT FUND	HEALTH BENEFIT SUPPLEMENT FUND	HEALTH BENEFIT SUPPLEMENT FUND	HEALTH BENEFIT SUPPLEMENT FUND	HEALTH BENEFIT SUPPLEMENT FUND		
\$ 421	\$ 7	\$ 11,167		\$ 809		\$ 3,705		\$ 305		\$ 325,159		
2,103	-	264		19		87		7		57,573		
35,291	-	906		66		300		25		883,247		
1,054	-	-		-		-		-		27,970		
960	461	46		-		4		30		75,902		
-	-	-		-		-		-		739		
7,774	3,050	-		-		-		-		13,791		
8,530	4,932	-		-		-		-		32,708		
<u>55,712</u>	<u>8,443</u>	<u>1,216</u>		<u>85</u>		<u>391</u>		<u>62</u>		<u>1,091,930</u>		
139,781	2,838	-		-		-		-		970,923		
386,882	52,519	17,822		1,291		5,913		487		9,867,982		
779,855	117,412	85,539		6,198		28,380		2,337		21,200,882		
41,770	-	26,746		1,938		8,874		731		1,760,189		
-	-	28,668		2,077		9,511		783		794,790		
138,990	22,198	28,445		2,061		9,437		777		4,167,013		
-	-	31,468		2,280		10,440		860		1,247,968		
-	-	45,014		3,261		14,934		1,230		872,424		
11,805	-	14,738		1,068		4,890		403		696,090		
21,768	3,314	23,408		1,696		7,766		640		1,172,530		
<u>1,520,851</u>	<u>198,281</u>	<u>301,848</u>		<u>21,870</u>		<u>100,145</u>		<u>8,248</u>		<u>42,750,791</u>		
-	-	-		-		-		-		4,004		
<u>1,576,984</u>	<u>206,731</u>	<u>314,231</u>		<u>22,764</u>		<u>104,241</u>		<u>8,615</u>		<u>44,171,884</u>		
-	-	-		-		-		-		926		
886	337	-		-		-		-		33,215		
19,593	-	372		27		123		10		484,980		
11,805	-	14,767		1,070		4,899		403		696,088		
633	-	-		-		-		-		15,432		
-	-	-		-		-		-		13,791		
-	-	-		-		-		-		6,514		
<u>32,917</u>	<u>337</u>	<u>15,139</u>		<u>1,097</u>		<u>5,022</u>		<u>413</u>		<u>1,250,020</u>		
-	-	-		-		-		-		613		
-	-	-		-		-		-		40,743,536		
<u>1,544,067</u>	<u>206,394</u>	<u>299,092</u>		<u>21,667</u>		<u>99,219</u>		<u>8,202</u>		<u>2,178,641</u>		
<u>\$ 1,544,067</u>	<u>\$ 206,394</u>	<u>\$ 299,092</u>		<u>\$ 21,667</u>		<u>\$ 99,219</u>		<u>\$ 8,202</u>		<u>\$ 42,922,177</u>		

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	PENSION TRUST FUNDS				
	ASRS	PSPRS	EORP	CORP	AOC
ADDITIONS:					
Member contributions	\$ 1,036,714	\$ 169,470	\$ 7,731	\$ 42,540	\$ 9,230
Employer contributions	1,015,974	564,862	15,636	90,241	21,038
Non-employer entity contributions	-	17,316	5,000	-	-
Member purchase of service credit	23,765	12,540	96	299	61
Court fees	-	-	8,580	-	-
Investment income:					
Net increase (decrease) in fair value of investments	(43,278)	22,063	1,014	4,784	1,336
Interest income	127,317	2,281	110	454	127
Dividends	264,844	38,935	1,879	7,740	2,161
Other investment income	34,513	71,958	3,469	14,226	3,972
Securities lending income	8,040	2,179	105	433	121
Total investment income (loss)	391,436	137,416	6,577	27,637	7,717
Less investment expenses:					
Investment activity expenses	167,472	101,454	5,080	20,194	5,638
Securities lending expenses	1,058	326	16	65	18
Net investment income (loss)	222,906	35,636	1,481	7,378	2,061
Other additions	1,701	688	180	320	563
Total Additions	2,301,060	800,512	38,704	140,778	32,953
DEDUCTIONS:					
Retirement, disability, and survivor benefits	2,804,531	810,653	58,003	104,815	22,136
Health insurance subsidy	-	-	-	-	-
Refunds to withdrawing members, including interest	258,315	17,427	84	28,990	2,466
Administrative expense	22,965	5,184	249	1,061	299
Other deductions	1,104	540	41	1,375	184
Total Deductions	3,086,915	833,804	58,377	136,241	25,085
Change in net position restricted for:					
Pension benefits	(785,855)	(33,292)	(19,673)	4,537	7,868
Other post-employment benefits	-	-	-	-	-
Net Position - Beginning	33,645,646	6,075,769	308,668	1,205,559	334,309
Net Position - Ending	\$ 32,859,791	\$ 6,042,477	\$ 288,995	\$ 1,210,096	\$ 342,177

OTHER EMPLOYEE BENEFIT TRUST FUNDS

ASRS HEALTH BENEFIT SUPPLEMENT FUND	ASRS LONG-TERM DISABILITY FUND	PSPRS HEALTH BENEFIT SUPPLEMENT FUND	EORP HEALTH BENEFIT SUPPLEMENT FUND	CORP HEALTH BENEFIT SUPPLEMENT FUND	AOC HEALTH BENEFIT SUPPLEMENT FUND	TOTAL
\$ -	\$ 10,990	\$ -	\$ -	\$ -	\$ -	\$ 1,276,675
46,046	11,162	4,195	-	412	932	1,770,498
-	-	-	-	-	-	22,316
-	-	-	-	-	-	36,761
-	-	-	-	-	-	8,580
501	(196)	1,091	75	397	31	(12,182)
5,487	2	113	8	38	3	135,940
11,417	-	1,926	139	642	50	329,733
1,490	19	3,559	257	1,180	93	134,736
347	-	108	8	36	3	11,380
19,242	(175)	6,797	487	2,293	180	599,607
7,172	212	5,018	376	1,675	132	314,423
46	-	16	1	5	-	1,551
12,024	(387)	1,763	110	613	48	283,633
8,455	-	-	-	-	-	11,907
66,525	21,765	5,958	110	1,025	980	3,410,370
94,754	60,065	-	-	-	-	3,954,957
-	-	15,289	1,022	3,339	388	20,038
-	-	-	-	-	-	307,282
999	2,298	255	19	88	7	33,424
-	281	-	-	-	-	3,525
95,753	62,644	15,544	1,041	3,427	395	4,319,226
-	-	-	-	-	-	(826,415)
(29,228)	(40,879)	(9,586)	(931)	(2,402)	585	(82,441)
1,573,295	247,273	308,678	22,598	101,621	7,617	43,831,033
\$ 1,544,067	\$ 206,394	\$ 299,092	\$ 21,667	\$ 99,219	\$ 8,202	\$ 42,922,177



INVESTMENT TRUST FUNDS

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

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

Local Government Investment Pool is an Investment Trust Account composed of corporate debt, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

Local Government Investment Pool – Medium-Term is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

Local Government Investment Pool – FF&C is an Investment Trust Account composed of corporate notes, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

Local Government Investment Pool – Medium-Term FF&C is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

Lehman Brothers Pool is an Investment Trust Account composed of the Local Government Investment Pool's share of the Lehman Brothers bond value that was transferred to this pool due to Lehman Brothers filing for Chapter 11 bankruptcy. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities held by the Local Government Investment Pool.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
JUNE 30, 2016
(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
ASSETS					
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ -	\$ 5,497	\$ -
Receivables, net of allowances: Accrued interest and dividends	917	69	788	469	263
Investments, at fair value:					
Fixed income securities	340,075	1,046,658	248,417	1,198,247	132,909
Collateral investment pool	1,407	-	3,700	76,332	-
Total investments	<u>341,482</u>	<u>1,046,658</u>	<u>252,117</u>	<u>1,274,579</u>	<u>132,909</u>
Total Assets	<u>342,399</u>	<u>1,046,727</u>	<u>252,905</u>	<u>1,280,545</u>	<u>133,172</u>
LIABILITIES					
Management fee payable	15	54	11	58	6
Obligations under securities loan agreements	<u>1,407</u>	<u>-</u>	<u>3,700</u>	<u>76,332</u>	<u>-</u>
Total Liabilities	<u>1,422</u>	<u>54</u>	<u>3,711</u>	<u>76,390</u>	<u>6</u>
NET POSITION					
Held in trust for pool participants	<u>\$ 340,977</u>	<u>\$ 1,046,673</u>	<u>\$ 249,194</u>	<u>\$ 1,204,155</u>	<u>\$ 133,166</u>
Net position consist of:					
Participant shares outstanding	338,379	1,046,673	240,136	1,204,155	131,167
Participants' net position value (net position/shares outstanding)	\$ 1.01	\$ 1.00	\$ 1.04	\$ 1.00	\$ 1.02

LEHMAN BROTHERS	
<u>POOL</u>	<u>TOTAL</u>
\$ 326	\$ 5,823
-	2,506
1,763	2,968,069
-	81,439
<u>1,763</u>	<u>3,049,508</u>
<u>2,089</u>	<u>3,057,837</u>
-	144
-	81,439
-	81,583
<u>\$ 2,089</u>	<u>\$ 2,976,254</u>

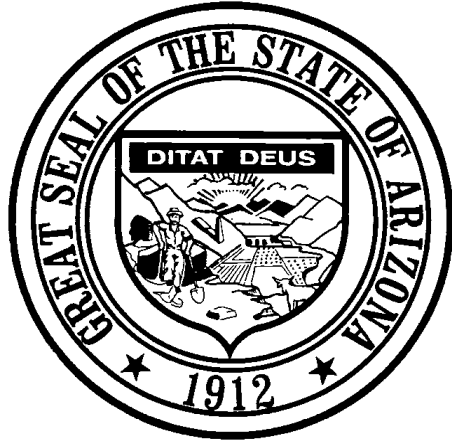
20,179 2,980,689

\$ 0.10

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
(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
ADDITIONS:					
Investment income:					
Net increase (decrease) in fair value of investments	\$ 675	\$ (14)	\$ 868	\$ 105	\$ 379
Interest income	4,915	3,573	3,570	2,927	1,947
Securities lending income	23	-	18	15	1
Total investment income	5,613	3,559	4,456	3,047	2,327
Less: Investment activity expenses					
Investment activity expenses	175	618	135	558	74
Securities lending expenses	20	-	15	12	1
Net investment income	5,418	2,941	4,306	2,477	2,252
Capital share and individual account transactions:					
Shares sold	78,058	2,477,362	21,938	1,684,226	6,377
Reinvested interest income	4,269	2,954	3,040	2,372	1,367
Shares redeemed	(51,773)	(2,488,153)	(28,948)	(1,545,438)	(9,044)
Transfers in (out)	-	1,001	-	-	-
Net capital share and individual account transactions	30,554	(6,836)	(3,970)	141,160	(1,300)
Total Additions	35,972	(3,895)	336	143,637	952
DEDUCTIONS:					
Dividends to investors	5,418	2,941	4,306	2,477	2,252
Total Deductions	5,418	2,941	4,306	2,477	2,252
Change in net position held in trust for pool participants	30,554	(6,836)	(3,970)	141,160	(1,300)
Net Position - Beginning	310,423	1,053,509	253,164	1,062,995	134,466
Net Position - Ending	\$ 340,977	\$ 1,046,673	\$ 249,194	\$ 1,204,155	\$ 133,166

LEHMAN BROTHERS		
<u>POOL</u>	<u>TOTAL</u>	
\$ 853	\$ 2,866	
-	16,932	
-	57	
<u>853</u>	<u>19,855</u>	
-	1,560	
-	48	
<u>853</u>	<u>18,247</u>	
-	4,267,961	
-	14,002	
-	(4,123,356)	
<u>(1,001)</u>	<u>-</u>	
<u>(1,001)</u>	<u>158,607</u>	
<u>(148)</u>	<u>176,854</u>	
-	17,394	
-	17,394	
(148)	159,460	
<u>2,237</u>	<u>2,816,794</u>	
<u>\$ 2,089</u>	<u>\$ 2,976,254</u>	



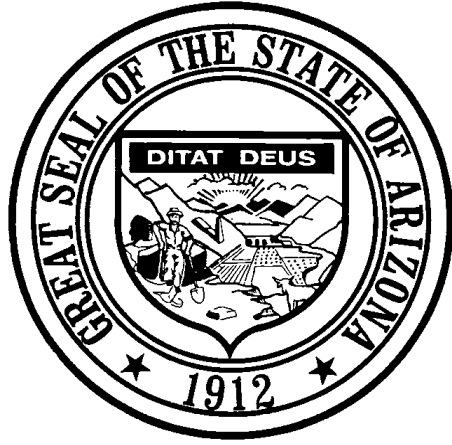
AGENCY FUNDS

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations.

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

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

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



STATE OF ARIZONA
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2016
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
ASSETS				
Cash	\$ -	\$ -	\$ 25,166	\$ 25,166
Cash and pooled investments with State Treasurer	-	12,179	52,612	64,791
Receivables, net of allowances:				
Accrued interest	-	-	1	1
Other	-	-	2	2
Short-term investments	-	-	1,343	1,343
Due from others	-	-	82,032	82,032
Custodial securities in safekeeping	776,127	-	6,333	782,460
Other assets	-	-	1,508	1,508
Total Assets	\$ 776,127	\$ 12,179	\$ 168,997	\$ 957,303
LIABILITIES				
Due to local governments	\$ -	\$ 230	\$ 10,154	\$ 10,384
Due to others	776,127	11,949	158,843	946,919
Total Liabilities	\$ 776,127	\$ 12,179	\$ 168,997	\$ 957,303

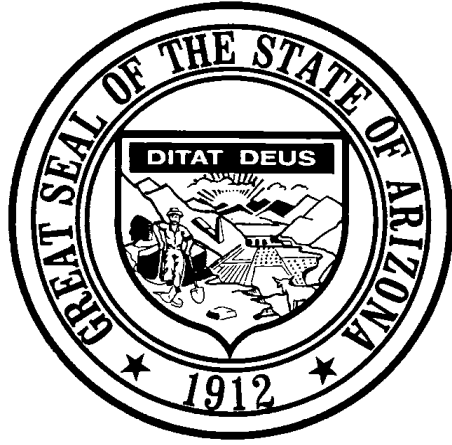
STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	BALANCE JULY 1, 2015	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2016
TREASURER CUSTODIAL SECURITIES FUND				
Assets:				
Custodial securities in safekeeping	\$ 3,965,606	\$ 721,463	\$ 3,910,942	\$ 776,127
Total Assets	<u>\$ 3,965,606</u>	<u>\$ 721,463</u>	<u>\$ 3,910,942</u>	<u>\$ 776,127</u>
Liabilities:				
Due to others	\$ 3,965,606	\$ 721,463	\$ 3,910,942	\$ 776,127
Total Liabilities	<u>\$ 3,965,606</u>	<u>\$ 721,463</u>	<u>\$ 3,910,942</u>	<u>\$ 776,127</u>
OTHER TREASURER FUNDS				
Assets:				
Cash and pooled investments with State Treasurer	\$ 15,628	\$ 97,157	\$ 100,606	\$ 12,179
Receivables, net of allowances:				
Accrued interest	5	-	5	-
Total Assets	<u>\$ 15,633</u>	<u>\$ 97,157</u>	<u>\$ 100,611</u>	<u>\$ 12,179</u>
Liabilities:				
Due to local governments	\$ 4,221	\$ 110,785	\$ 114,776	\$ 230
Due to others	11,412	31,230	30,693	11,949
Total Liabilities	<u>\$ 15,633</u>	<u>\$ 142,015</u>	<u>\$ 145,469</u>	<u>\$ 12,179</u>
OTHER FUNDS				
Assets:				
Cash	\$ 19,143	\$ 761,354	\$ 755,331	\$ 25,166
Cash and pooled investments with State Treasurer	90,316	285,629	323,333	52,612
Collateral investment pool	1,572	-	1,572	-
Receivables, net of allowances:				
Accrued interest	38	1	38	1
Other	-	5	3	2
Short-term investments	6,258	1,343	6,258	1,343
Due from others	83,132	82,032	83,132	82,032
Custodial securities in safekeeping	5,993	6,333	5,993	6,333
Other assets	1,649	1,508	1,649	1,508
Total Assets	<u>\$ 208,101</u>	<u>\$ 1,138,205</u>	<u>\$ 1,177,309</u>	<u>\$ 168,997</u>
Liabilities:				
Obligation under securities loan agreements	\$ 1,572	\$ -	\$ 1,572	\$ -
Due to local governments	11,221	109,167	110,234	10,154
Due to others	195,308	1,141,113	1,177,578	158,843
Total Liabilities	<u>\$ 208,101</u>	<u>\$ 1,250,280</u>	<u>\$ 1,289,384</u>	<u>\$ 168,997</u>

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016
 (Expressed in Thousands)

	BALANCE JULY 1, 2015	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2016
COMBINED TOTAL ALL AGENCY FUNDS				
Assets:				
Cash	\$ 19,143	\$ 761,354	\$ 755,331	\$ 25,166
Cash and pooled investments with State Treasurer	105,944	382,786	423,939	64,791
Collateral investment pool	1,572	-	1,572	-
Receivables, net of allowances:				
Accrued interest	43	1	43	1
Other	-	5	3	2
Short-term investments	6,258	1,343	6,258	1,343
Due from others	83,132	82,032	83,132	82,032
Custodial securities in safekeeping	3,971,599	727,796	3,916,935	782,460
Other assets	1,649	1,508	1,649	1,508
Total Assets	<u>\$ 4,189,340</u>	<u>\$ 1,956,825</u>	<u>\$ 5,188,862</u>	<u>\$ 957,303</u>
Liabilities:				
Obligation under securities				
loan agreements	\$ 1,572	\$ -	\$ 1,572	\$ -
Due to local governments	15,442	219,952	225,010	10,384
Due to others	4,172,326	1,893,806	5,119,213	946,919
Total Liabilities	<u>\$ 4,189,340</u>	<u>\$ 2,113,758</u>	<u>\$ 5,345,795</u>	<u>\$ 957,303</u>



NON-MAJOR COMPONENT UNITS

Component units are legally separate entities for which the State is considered to be financially accountable. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

The Arizona Power Authority purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws.

The Rio Nuevo Multipurpose Facilities District (Rio Nuevo) utilizes tax incremental financing to help develop multipurpose facilities in the downtown Tucson area.

The Greater Arizona Development Authority provides cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects.

The Arizona Commerce Authority is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives.

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS
JUNE 30, 2016
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
ASSETS					
Current Assets:					
Cash	\$ -	\$ 15,608	\$ -	\$ 12,348	\$ 27,956
Cash and pooled investments with State Treasurer	5,973	-	1,406	61,182	68,561
Restricted investments held by trustee	5,417	-	-	-	5,417
Receivables, net of allowances:					
Taxes	-	3,968	-	-	3,968
Interest	-	-	8	-	8
Loans and notes	-	-	-	2,529	2,529
Other	2,989	-	-	4,254	7,243
Other current assets	960	443	-	9	1,412
Total Current Assets	15,339	20,019	1,414	80,322	117,094
Noncurrent Assets:					
Restricted assets:					
Cash and pooled investments with State Treasurer	-	-	11,965	-	11,965
Cash held by trustee	-	13,952	-	-	13,952
Investments held by trustee	7,766	-	-	-	7,766
Loans and notes receivable, net of allowances	-	16,103	-	8,438	24,541
Other noncurrent assets	613	-	-	-	613
Capital assets:					
Land and other non-depreciable	-	8,530	-	-	8,530
Buildings, equipment, and other depreciable, net of accumulated depreciation	114	29,795	-	543	30,452
Total Noncurrent Assets	8,493	68,380	11,965	8,981	97,819
Total Assets	23,832	88,399	13,379	89,303	214,913
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	72	-	-	-	72
Loss on debt refundings	-	7,621	-	-	7,621
Future benefits and advances	21,584	-	-	-	21,584
Total Deferred Outflows of Resources	21,656	7,621	-	-	29,277
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	2,316	4,983	-	1,267	8,566
Accrued liabilities	458	49	4	-	511
Current portion of long-term debt	5,905	6,940	-	-	12,845
Total Current Liabilities	8,679	11,972	4	1,267	21,922
Noncurrent Liabilities:					
Net pension liability	923	-	-	-	923
Long-term debt	32,806	68,685	-	-	101,491
Total Noncurrent Liabilities	33,729	68,685	-	-	102,414
Total Liabilities	42,408	80,657	4	1,267	124,336
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	203	-	-	-	203
NET POSITION					
Net investment in capital assets	114	33,924	-	543	34,581
Restricted for:					
Debt service	13,182	9,572	11,965	-	34,719
Loans and other financial assistance	-	-	-	26,501	26,501
Other	-	-	-	13,058	13,058
Unrestricted	(10,419)	(28,133)	1,410	47,934	10,792
Total Net Position	\$ 2,877	\$ 15,363	\$ 13,375	\$ 88,036	\$ 119,651

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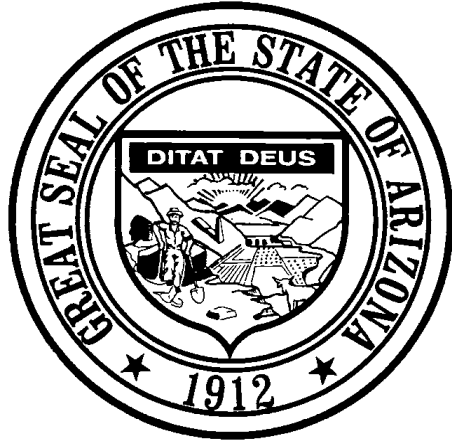
STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Arizona Power Authority	\$ 26,483	\$ 27,239	\$ -
Rio Nuevo	8,640	1,384	-
Greater Arizona Development Authority	47	-	-
Arizona Commerce Authority	129,374	1,121	2,345
Total	<u>\$ 164,544</u>	<u>\$ 29,744</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 Position
- Net Position - Beginning
- Net Position - Ending

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

ARIZONA POWER AUTHORITY	RIO NUEVO	GREATER AZ DEVELOPMENT AUTHORITY	ARIZONA COMMERCE AUTHORITY	TOTAL
\$ 756	\$ -	\$ -	\$ -	\$ 756
-	(7,256)	-	-	(7,256)
-	-	(47)	-	(47)
-	-	-	(125,908)	(125,908)
-	12,443	-	-	12,443
-	-	-	3,892	3,892
21	21	136	1,361	1,539
-	-	-	50	50
-	-	-	32,462	32,462
6	4,378	-	-	4,384
783	9,586	89	(88,143)	(77,685)
2,094	5,777	13,286	176,179	197,336
\$ 2,877	\$ 15,363	\$ 13,375	\$ 88,036	\$ 119,651



NON-MAJOR UNIVERSITIES – AFFILIATED COMPONENT UNITS

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate boards of directors that meet the criteria established in GASB, with the exception of Downtown Phoenix Student Housing, LLC, the ASU Preparatory Academy, Inc. (ASU Prep), and Campus Research Corporation (CRC). The Downtown Phoenix Student Housing, LLC is included due to the nature and significance of the financial arrangement that it has with the State and that the State believes would be misleading to exclude. The ASU Prep is included because of its close affiliation to the State and that the State believes it would be misleading to exclude. The CRC is included because the U of A approves the budget and can access its resources.

The Northern Arizona University Foundation receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the NAU for advancement of its mission. The NAREH is a wholly owned subsidiary of the NAU Foundation and was established to construct, develop, equip, operate, maintain, lease, and hold real estate investments on behalf of the NAU Foundation. The NAUV is a wholly owned subsidiary of the NAU Foundation and was established to license, or otherwise commercialize the intellectual property owned or controlled by the Arizona Board of Regents, the NAU, or the NAU Foundation.

Sun Angel Foundation receives funds primarily through donations, and contributes funds to the ASU in support of various athletic programs.

Sun Angel Endowment receives funds primarily through donations, with the annual earnings being used for programs in support of various athletic programs at the ASU.

Thunderbird School of Global Management offers non-degree programs focused on global business across cultural, ethical, and multi-lingual curriculum.

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, which are used to promote the welfare of the ASU and its alumni.

Downtown Phoenix Student Housing, LLC provides facilities for use by students of the ASU.

The Arizona State University Preparatory Academy, Inc. prepares Arizona K-12 students for success with a university-embedded academic program that empowers them to complete college, compete globally, and contribute to their communities.

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.

The University of Arizona Eller Executive Education was established to advance the missions of the Eller College of Management and the U of A through noncredit, non-degree programs for business, government, and nonprofit leaders.

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2016
(Expressed in Thousands)

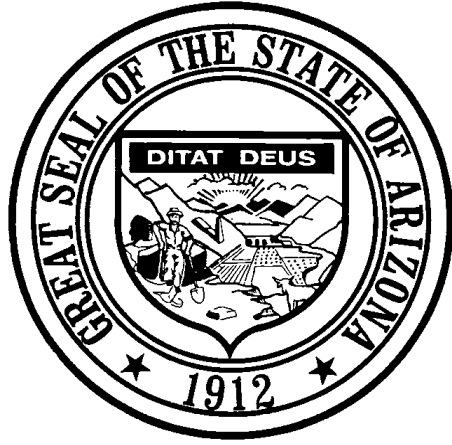
	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	THUNDERBIRD SCHOOL OF GLOBAL MANAGEMENT	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
ASSETS						
Cash and cash equivalent investments	\$ 1,211	\$ 3,687	\$ 207	\$ 5,600	\$ 2,464	\$ 920
Receivables:						
Pledges receivable	7,643	36,887	-	-	-	20
Other receivables	637	5,468	-	6,490	25,689	860
Total receivables	<u>8,280</u>	<u>42,355</u>	<u>-</u>	<u>6,490</u>	<u>25,689</u>	<u>880</u>
Investments:						
Investments in securities	140,181	-	6,389	-	1,237	15,033
Other investments	13,142	-	442	-	-	-
Total investments	<u>153,323</u>	<u>-</u>	<u>6,831</u>	<u>-</u>	<u>1,237</u>	<u>15,033</u>
Net direct financing leases	5,598	-	-	-	-	-
Property and equipment, net of accumulated depreciation	-	13	-	25,057	5,035	-
Other assets	288	240	32	1,326	2,354	97
Total Assets	<u>168,700</u>	<u>46,295</u>	<u>7,070</u>	<u>38,473</u>	<u>36,779</u>	<u>16,930</u>
LIABILITIES						
Accounts payable and accrued liabilities	109	6,060	12	1,410	536	66
Liability under endowment trust agreements	28,837	-	-	-	-	-
Long-term debt	-	-	-	-	5,200	-
Deferred revenue	5,503	-	-	1,411	13,017	35
Other liabilities	2,393	-	2,000	5,309	1,684	15
Total Liabilities	<u>36,842</u>	<u>6,060</u>	<u>2,012</u>	<u>8,130</u>	<u>20,437</u>	<u>116</u>
NET ASSETS						
Permanently restricted	72,624	-	1,842	-	-	-
Temporarily restricted	49,179	39,567	836	16	-	965
Unrestricted (deficit)	10,055	668	2,380	30,327	16,342	15,849
Total Net Assets	<u>\$ 131,858</u>	<u>\$ 40,235</u>	<u>\$ 5,058</u>	<u>\$ 30,343</u>	<u>\$ 16,342</u>	<u>\$ 16,814</u>

DOWNTOWN PHOENIX STUDENT HOUSING	ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ 1,644	\$ 6,254	\$ 396	\$ 5,267	\$ 1,178	\$ 328	\$ 29,156
-	7,853	610	-	86	-	53,099
239	757	94	1,010	2,717	69	44,030
239	8,610	704	1,010	2,803	69	97,129
14,416	-	10,540	-	6,960	-	194,756
-	-	162	-	-	-	13,746
14,416	-	10,702	-	6,960	-	208,502
-	-	-	-	-	-	5,598
90,317	346	-	21,189	116	-	142,073
5,293	680	7	4,296	54	-	14,667
111,909	15,890	11,809	31,762	11,111	397	497,125
19,828	1,555	102	1,224	287	70	31,259
-	-	-	-	-	-	28,837
138,404	46	-	4,239	16	-	147,905
26	76	-	3,195	4,321	236	27,820
362	-	-	571	-	-	12,334
158,620	1,677	102	9,229	4,624	306	248,155
-	-	5,383	-	-	-	79,849
-	10,644	3,683	-	-	18	104,908
(46,711)	3,569	2,641	22,533	6,487	73	64,213
\$ (46,711)	\$ 14,213	\$ 11,707	\$ 22,533	\$ 6,487	\$ 91	\$ 248,970

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT	THUNDERBIRD SCHOOL OF GLOBAL MANAGEMENT	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
REVENUES						
Contributions	\$ 15,516	\$ 29,114	\$ -	\$ 554	\$ -	\$ 2,610
Rental revenue	-	-	-	-	9,580	-
Sales and services	-	530	-	21,662	-	2,309
Net investment income	(2,947)	23	(104)	(4)	2	(655)
Grants and aid	-	-	-	-	-	-
Other revenues	2,942	78	1	(28)	67	1,401
Total Revenues	15,511	29,745	(103)	22,184	9,649	5,665
EXPENSES						
Program services:						
Payments to Universities	-	15,511	-	23,494	2,684	-
Leasing related expenses	-	-	-	-	-	-
Payments on behalf of Universities	-	-	-	-	-	-
Other program services	8,320	-	-	-	-	-
Management and general expenses	551	1,314	131	23,069	1,050	5,128
Fundraising expenses	4,103	-	-	-	-	-
Interest	-	-	123	-	247	-
Depreciation and amortization	212	-	-	-	408	-
Other expenses	-	6,473	-	-	150	301
Total Expenses	13,186	23,298	254	46,563	4,539	5,429
Increase (decrease) in Net Assets	2,325	6,447	(357)	(24,379)	5,110	236
Net Assets - Beginning	129,533	33,788	5,415	54,722	11,232	16,578
Net Assets - Ending	\$ 131,858	\$ 40,235	\$ 5,058	\$ 30,343	\$ 16,342	\$ 16,814

DOWNTOWN PHOENIX STUDENT HOUSING	ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ -	\$ 11,997	\$ 1,706	\$ -	\$ 228	\$ -	\$ 61,725
11,067	-	-	13,624	-	-	34,271
-	1,293	-	-	1,178	1,244	28,216
1	-	174	7	7	-	(3,496)
-	17,344	-	-	-	-	17,344
-	227	189	226	2,307	-	7,410
<u>11,068</u>	<u>30,861</u>	<u>2,069</u>	<u>13,857</u>	<u>3,720</u>	<u>1,244</u>	<u>145,470</u>
-	-	-	-	-	323	42,012
-	-	-	9,524	-	-	9,524
-	-	3,028	-	3,095	820	6,943
-	-	-	-	-	-	8,320
3,045	20,237	-	1,507	806	311	57,149
-	-	-	-	237	-	4,340
7,167	-	-	-	-	-	7,537
4,021	95	-	-	-	-	4,736
847	-	-	-	-	-	7,771
<u>15,080</u>	<u>20,332</u>	<u>3,028</u>	<u>11,031</u>	<u>4,138</u>	<u>1,454</u>	<u>148,332</u>
(4,012)	10,529	(959)	2,826	(418)	(210)	(2,862)
<u>(42,699)</u>	<u>3,684</u>	<u>12,666</u>	<u>19,707</u>	<u>6,905</u>	<u>301</u>	<u>251,832</u>
<u>\$ (46,711)</u>	<u>\$ 14,213</u>	<u>\$ 11,707</u>	<u>\$ 22,533</u>	<u>\$ 6,487</u>	<u>\$ 91</u>	<u>\$ 248,970</u>



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 through 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 through 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 through 21* 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 22 and 23* 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 24 through 26* contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

STATE OF ARIZONA
SCHEDULE 1
NET POSITION BY COMPONENT (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Fiscal Year				
	2016	2015, as restated	2014, as restated	2013, as restated	2012, as restated
GOVERNMENTAL ACTIVITIES:					
Net investment in capital assets (5,8)	\$ 19,722,730	\$ 18,790,889	\$ 18,053,540	\$ 17,410,055	\$ 16,940,512
Restricted (3)	6,856,271	7,170,289	6,829,299	6,116,083	5,447,576
Unrestricted (6,8)	(5,205,689)	(5,685,921)	(5,841,106)	(2,527,441)	(3,351,315)
Total Governmental Activities Net Position	\$ 21,373,312	\$ 20,275,257	\$ 19,041,733	\$ 20,998,697	\$ 19,036,773
BUSINESS-TYPE ACTIVITIES:					
Net investment in capital assets (4,8,9)	\$ 1,761,694	\$ 1,642,507	\$ 1,581,436	\$ 1,526,777	\$ 1,483,416
Restricted (7)	1,191,605	895,616	723,590	531,972	496,444
Unrestricted (2,4,6,8,9)	274,821	215,120	(51,586)	1,049,391	810,810
Total Business-type Activities Net Position	\$ 3,228,120	\$ 2,753,243	\$ 2,253,440	\$ 3,108,140	\$ 2,790,670
PRIMARY GOVERNMENT:					
Net investment in capital assets (4,5,9)	\$ 21,484,424	\$ 20,433,396	\$ 19,634,976	\$ 18,936,832	\$ 18,423,928
Restricted (3,7)	8,047,876	8,065,905	7,552,889	6,648,055	5,944,020
Unrestricted (2,4,6,8,9)	(4,930,868)	(5,470,801)	(5,892,692)	(1,478,050)	(2,540,505)
Total Primary Government Net Position	\$ 24,601,432	\$ 23,028,500	\$ 21,295,173	\$ 24,106,837	\$ 21,827,443

- (1) This schedule reports using the accrual basis of accounting.
- (2) Fiscal year 2012 unrestricted net position was restated as a result of GASB Statement No. 61 in which Northern Arizona Capital Facilities Corporation was reclassified from a discrete non-major university component unit to a blended university component unit.
- (3) Fiscal year 2012 restricted net position was restated as a result of an agency fund being reclassified to a special revenue fund.
- (4) Fiscal year 2013 unrestricted net position for the Universities was restated as a result of GASB Statement No. 65 to expense debt issuance costs.
- (5) Fiscal year 2014 net investment in capital assets was restated due to a correction of an error related to the private prisons' capital leases.
- (6) Fiscal year 2014 unrestricted net position has been restated due to the implementation of GASB Statement No. 68.
- (7) Fiscal year 2014 restricted net position was restated due to the fund reclassification of the Insurance Department Guaranty Fund.
- (8) Fiscal year 2015 net investment in capital assets and unrestricted net position was restated due to the fund reclassification of the Arizona Highways Magazine Fund.
- (9) Fiscal year 2015 net investment in capital assets and unrestricted net position for the Universities was restated due to the implementation of GASB Statement No. 72.

Fiscal Year				
2011	2010	2009	2008	2007, as restated
\$ 16,326,569	\$ 15,738,121	\$ 15,094,719	\$ 14,530,867	\$ 13,500,218
5,125,527	4,648,280	3,990,594	4,987,365	4,734,039
(4,243,824)	(4,155,346)	(2,984,628)	(1,105,246)	614,606
<u>\$ 17,208,272</u>	<u>\$ 16,231,055</u>	<u>\$ 16,100,685</u>	<u>\$ 18,412,986</u>	<u>\$ 18,848,863</u>
\$ 1,397,683	\$ 1,352,658	\$ 1,328,658	\$ 1,387,655	\$ 1,186,177
501,437	550,102	1,085,399	1,581,212	1,575,991
695,862	576,426	376,908	188,354	295,377
<u>\$ 2,594,982</u>	<u>\$ 2,479,186</u>	<u>\$ 2,790,965</u>	<u>\$ 3,157,221</u>	<u>\$ 3,057,545</u>
\$ 17,724,252	\$ 17,090,779	\$ 16,423,377	\$ 15,918,522	\$ 14,686,395
5,626,964	5,198,382	5,075,993	6,568,577	6,310,030
(3,547,962)	(3,578,920)	(2,607,720)	(916,892)	909,983
<u>\$ 19,803,254</u>	<u>\$ 18,710,241</u>	<u>\$ 18,891,650</u>	<u>\$ 21,570,207</u>	<u>\$ 21,906,408</u>

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET POSITION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Fiscal Year				
	2016	2015	2014 (8)	2013, as restated	2012, as restated
EXPENSES					
Governmental Activities:					
General government	\$ 807,320	\$ 923,659	\$ 763,830	\$ 836,431	\$ 840,189
Health and welfare (6)	15,152,650	14,296,714	12,768,332	12,168,426	11,992,408
Inspection and regulation	168,719	159,874	160,797	161,480	151,937
Education	6,136,303	5,859,267	5,573,656	5,372,267	5,331,848
Protection and safety	1,585,620	1,568,732	1,408,049	1,400,413	1,380,999
Transportation	858,958	786,028	791,006	754,510	808,967
Natural resources	208,563	204,939	200,868	204,179	213,339
Intergovernmental revenue sharing	3,176,183	2,966,400	2,778,299	2,685,378	2,473,881
Interest on long-term debt	210,326	230,871	279,525	355,975	350,483
Total Governmental Activities Expenses	<u>28,304,642</u>	<u>26,996,484</u>	<u>24,724,362</u>	<u>23,939,059</u>	<u>23,544,051</u>
Business-type Activities:					
Universities (5)	4,637,567	4,378,481	4,078,053	3,888,145	3,629,568
Unemployment Compensation (3)	-	-	-	-	1,069,531
Industrial Commission Special Fund (7)	-	-	36,895	38,614	83,290
Lottery (3)	-	-	-	-	496,830
Other	1,014,941	1,041,261	1,130,299	1,329,816	113,347
Total Business-type Activities Expenses	<u>5,652,508</u>	<u>5,419,742</u>	<u>5,245,247</u>	<u>5,256,575</u>	<u>5,392,566</u>
Total Primary Government Expenses (6)	<u>\$ 33,957,150</u>	<u>\$ 32,416,226</u>	<u>\$ 29,969,609</u>	<u>\$ 29,195,634</u>	<u>\$ 28,936,617</u>
PROGRAM REVENUES					
Governmental Activities:					
Charges for services:					
General government	\$ 196,179	\$ 188,356	\$ 188,943	\$ 188,462	\$ 189,175
Inspection and regulation	166,075	157,624	157,149	156,164	150,557
Transportation	143,697	113,163	113,267	119,862	108,877
Other activities	685,118	664,903	477,564	386,381	398,893
Operating grants and contributions	13,532,247	13,200,146	12,172,836	11,588,834	11,357,470
Capital grants and contributions	870,644	706,089	546,680	651,999	778,572
Total Governmental Activities Program Revenues	<u>15,593,960</u>	<u>15,030,281</u>	<u>13,656,439</u>	<u>13,091,702</u>	<u>12,983,544</u>
Business-type Activities:					
Charges for services:					
Universities	2,519,048	2,303,791	2,056,307	1,892,356	1,752,509
Lottery (3)	-	-	-	-	646,675
Other activities	1,468,139	1,345,566	1,325,046	1,289,456	584,240
Operating grants and contributions	1,452,562	1,320,612	1,343,922	1,570,854	1,705,773
Capital grants and contributions	11,911	43,321	41,250	15,210	53,571
Total Business-type Activities Program Revenues	<u>5,451,660</u>	<u>5,013,290</u>	<u>4,766,525</u>	<u>4,767,876</u>	<u>4,742,768</u>
Total Primary Government Program Revenues	<u>\$ 21,045,620</u>	<u>\$ 20,043,571</u>	<u>\$ 18,422,964</u>	<u>\$ 17,859,578</u>	<u>\$ 17,726,312</u>
NET (EXPENSE) REVENUE					
Governmental activities	\$ (12,710,682)	\$ (11,966,203)	\$ (11,067,923)	\$ (10,847,357)	\$ (10,560,507)
Business-type activities	(200,848)	(406,452)	(478,722)	(488,699)	(649,798)
Total Primary Government Net (Expense)	<u>\$ (12,911,530)</u>	<u>\$ (12,372,655)</u>	<u>\$ (11,546,645)</u>	<u>\$ (11,336,056)</u>	<u>\$ (11,210,305)</u>

Fiscal Year

2011	2010	2009	2008	2007, as restated
\$ 929,107	\$ 941,813	\$ 928,485	\$ 982,382	\$ 802,659
12,558,119	13,090,357	12,055,439	10,884,297	9,789,699
149,649	157,786	176,354	185,996	175,609
5,467,543	5,706,667	6,084,342	6,242,173	5,984,196
1,299,205	1,451,571	1,514,282	1,510,615	1,401,513
857,194	511,397	695,070	670,173	583,304
196,210	183,535	228,430	250,258	193,862
2,462,178	2,585,683	2,755,710	3,023,836	2,864,543
341,801	261,518	222,851	179,795	191,674
<u>24,261,006</u>	<u>24,890,327</u>	<u>24,660,963</u>	<u>23,929,525</u>	<u>21,987,059</u>
3,533,977	3,343,377	3,290,033	3,227,481	2,960,790
1,655,364	2,103,028	1,086,330	356,333	248,111
27,196	67,750	30,055	14,824	23,669
439,069	432,150	395,950	372,740	363,508
115,442	126,029	142,229	162,300	176,486
<u>5,771,048</u>	<u>6,072,334</u>	<u>4,944,597</u>	<u>4,133,678</u>	<u>3,772,564</u>
<u>\$ 30,032,054</u>	<u>\$ 30,962,661</u>	<u>\$ 29,605,560</u>	<u>\$ 28,063,203</u>	<u>\$ 25,759,623</u>
\$ 191,738	\$ 208,316	\$ 199,011	\$ 190,374	\$ 200,495
149,890	143,329	153,642	159,857	158,022
114,453	123,372	138,520	149,560	158,019
381,633	402,496	315,660	318,776	281,796
12,580,013	13,735,263	10,620,642	9,190,910	8,536,030
745,559	576,027	553,198	523,898	354,255
<u>14,163,286</u>	<u>15,188,803</u>	<u>11,980,673</u>	<u>10,533,375</u>	<u>9,688,617</u>
1,601,077	1,432,055	1,272,694	1,167,696	1,069,339
583,537	551,492	484,486	472,937	462,200
560,502	509,254	439,010	485,242	518,922
2,212,673	2,260,071	1,243,697	898,441	883,373
14,799	12,563	14,710	38,029	27,981
<u>4,972,588</u>	<u>4,765,435</u>	<u>3,454,597</u>	<u>3,062,345</u>	<u>2,961,815</u>
<u>\$ 19,135,874</u>	<u>\$ 19,954,238</u>	<u>\$ 15,435,270</u>	<u>\$ 13,595,720</u>	<u>\$ 12,650,432</u>
\$ (10,097,720)	\$ (9,701,524)	\$ (12,680,290)	\$ (13,396,150)	\$ (12,298,442)
(798,460)	(1,306,899)	(1,490,000)	(1,071,333)	(810,749)
<u>\$ (10,896,180)</u>	<u>\$ (11,008,423)</u>	<u>\$ (14,170,290)</u>	<u>\$ (14,467,483)</u>	<u>\$ (13,109,191)</u>

(Continued)

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET POSITION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Fiscal Year				
	2016	2015 (8)	2014 (8)	2013, as restated	2012, as restated
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION					
Governmental Activities:					
Taxes:					
Sales	\$ 6,455,837	\$ 6,290,950	\$ 5,948,055	\$ 6,518,480	\$ 6,296,151
Income	4,511,674	4,430,602	3,963,197	3,974,998	3,706,698
Tobacco	318,902	314,522	314,313	316,050	317,369
Property	51,735	52,241	41,215	27,429	30,656
Motor vehicle and fuel	1,823,998	1,694,779	1,650,579	1,592,911	1,581,909
Other	616,580	560,920	547,481	531,186	522,510
Unrestricted investment earnings (2)	58,250	87,115	79,215	18,705	79,190
Unrestricted grants and contributions	115,097	39,847	37,926	45,746	40,678
Miscellaneous general revenues (4)	247,462	232,658	176,035	144,403	265,214
Gain (loss) on sale of trust land	75,042	97,231	83,695	174,095	125,479
Transfers	(465,840)	(601,539)	(578,361)	(534,722)	(576,846)
Total Governmental Activities	13,808,737	13,199,326	12,263,350	12,809,281	12,389,008
Business-type Activities:					
Sales taxes	69,927	64,757	63,669	57,490	55,309
Unrestricted investment earnings	68,795	37,839	108,296	62,017	49,501
Unrestricted grants and contributions	548	-	107	5	3,468
Miscellaneous general revenues	65,143	138,931	78,837	148,743	155,757
Contributions to permanent endowments	5,472	5,740	6,561	3,192	3,270
Special items	-	-	-	-	-
Extraordinary items	-	-	3,900	-	-
Transfers	465,840	601,539	578,361	534,722	576,846
Total Business-type Activities	675,725	848,806	839,731	806,169	844,151
Total Primary Government	\$ 14,484,462	\$ 14,048,132	\$ 13,103,081	\$ 13,615,450	\$ 13,233,159
CHANGE IN NET POSITION					
Governmental activities	\$ 1,098,055	\$ 1,233,123	\$ 1,195,427	\$ 1,961,924	\$ 1,828,501
Business-type activities	474,877	442,354	361,009	317,470	194,353
Total Primary Government	\$ 1,572,932	\$ 1,675,477	\$ 1,556,436	\$ 2,279,394	\$ 2,022,854

- (1) This schedule reports using the accrual basis of accounting.
- (2) 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.
- (3) For fiscal year 2013, Unemployment Compensation and Lottery changed from major to non-major funds.
- (4) Fiscal year 2012 miscellaneous general revenues was restated as a result of an agency fund being reclassified to a special revenue fund.
- (5) Fiscal year 2013 expenses for the Universities were restated as a result of GASB Statement No. 65 to expense debt issuance costs.
- (6) For fiscal year 2015, Health and Welfare expenses continue to climb as a result of enrollment increases.
- (7) For fiscal year 2015, Industrial Commission Special Fund changed from a major to a non-major fund.
- (8) Historical data has not been restated for footnote items (5) - (9) in Schedule 1.

Fiscal Year

	2011	2010	2009	2008	2007, as restated
\$	5,942,250	\$ 5,029,050	\$ 5,442,563	\$ 6,270,419	\$ 6,537,584
	3,366,783	2,809,995	3,126,076	4,205,426	4,636,447
	320,657	332,893	370,073	413,333	358,205
	32,038	31,417	32,564	36,732	43,736
	1,565,525	1,583,790	1,643,276	1,800,920	1,826,893
	550,430	535,435	574,030	559,440	529,629
	29,183	37,665	92,957	243,160	243,328
	16,468	13,213	12,440	13,574	11,711
	140,854	204,295	222,712	214,751	212,253
	(154,359)	64,005	(165,696)	196,953	451,501
	(734,892)	(809,864)	(983,006)	(994,435)	(876,456)
	<u>11,074,937</u>	<u>9,831,894</u>	<u>10,367,989</u>	<u>12,960,273</u>	<u>13,974,831</u>
	52,913	52,318	58,528	72,945	79,223
	68,401	70,766	22,450	39,763	103,362
	-	-	-	-	-
	50,510	52,072	45,786	64,564	77,841
	3,656	3,020	4,014	3,927	4,815
	-	-	7,240	(20,100)	-
	3,884	7,080	2,720	15,475	-
	734,892	809,864	983,006	994,435	876,456
	<u>914,256</u>	<u>995,120</u>	<u>1,123,744</u>	<u>1,171,009</u>	<u>1,141,697</u>
\$	<u>11,989,193</u>	<u>10,827,014</u>	<u>11,491,733</u>	<u>14,131,282</u>	<u>15,116,528</u>
\$	977,217	\$ 130,370	\$ (2,312,301)	\$ (435,877)	\$ 1,676,389
	115,796	(311,779)	(366,256)	99,676	330,948
\$	<u>1,093,013</u>	<u>(181,409)</u>	<u>(2,678,557)</u>	<u>(336,201)</u>	<u>2,007,337</u>

STATE OF ARIZONA
SCHEDULE 3
FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Fiscal Year				
	2016	2015, as restated	2014	2013	2012, as restated
GENERAL FUND:					
Reserved for:					
Budget stabilization fund	\$ -	\$ -	\$ -	\$ -	\$ -
School facilities improvements	-	-	-	-	-
Continuing appropriations	-	-	-	-	-
Other fund balance reservations	-	-	-	-	-
Unreserved	-	-	-	-	-
Nonspendable (2)	9,669	9,168	9,600	844	891
Restricted (2)	91,833	241,919	124,390	192,187	246,977
Committed (2)	126,484	99,145	79,837	73,237	109,469
Unassigned (2,4)	(78,903)	(325,380)	(189,238)	156,935	(437,035)
Total General Fund	\$ 149,083	\$ 24,852	\$ 24,589	\$ 423,203	\$ (79,698)
ALL OTHER GOVERNMENTAL FUNDS:					
Reserved for:					
Highway construction	\$ -	\$ -	\$ -	\$ -	\$ -
Other construction	-	-	-	-	-
School facilities improvements	-	-	-	-	-
Permanent funds	-	-	-	-	-
Continuing appropriations	-	-	-	-	-
Debt service	-	-	-	-	-
Other fund balance reservations	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Nonspendable (2)	5,124,432	5,181,556	4,878,682	4,160,485	3,472,005
Restricted (2,3)	1,488,010	1,573,453	1,741,674	1,860,872	1,762,356
Committed (2)	937,949	825,740	734,446	661,110	514,085
Unassigned (2,5)	(21,325)	(27,562)	(29,744)	(26,266)	(33,861)
Total All Other Governmental Funds	\$ 7,529,066	\$ 7,553,187	\$ 7,325,058	\$ 6,656,201	\$ 5,714,585

- (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 No. 54. Additionally, as a result of the reclassification, fund balance for fiscal year 2010 was restated.
- (3) Fiscal year 2012 restricted fund balance was restated as a result of an agency fund being reclassified to a special revenue fund.
- (4) Fiscal year 2015 unassigned fund balance was restated as a result of funds being reclassified from the General Fund to Other Internal Service Funds.
- (5) Fiscal year 2015 unassigned fund balance was restated due to the fund reclassification of the Arizona Highways Magazine Fund.

Fiscal Year

2011	2010, as restated (2)	2009	2008	2007, as restated
\$ -	\$ -	\$ 2,767	\$ 147,212	\$ 673,531
-	14,764	376,993	1,914	4,931
-	55,354	43,091	103,320	162,657
-	232	252	262	272
-	(817,348)	(1,401,381)	108,914	1,081,708
716	-	-	-	-
317,471	-	-	-	-
141,183	-	-	-	-
(1,162,531)	-	-	-	-
<u>\$ (703,161)</u>	<u>\$ (746,998)</u>	<u>\$ (978,278)</u>	<u>\$ 361,622</u>	<u>\$ 1,923,099</u>

\$ -	\$ 809,497	\$ 1,304,781	\$ 1,253,202	\$ 976,488
-	45,403	108,129	238,985	5,288
-	-	-	-	-
-	2,674,953	2,196,040	2,544,365	2,454,564
-	116,350	212,553	143,785	94,602
-	26,389	27,115	35,236	34,421
-	40,327	7,447	27,132	17,702
-	821,491	767,258	919,679	793,890
-	-	-	-	-
3,244,080	-	-	-	-
1,531,992	-	-	-	-
452,447	-	-	-	-
(39,009)	-	-	-	-
<u>\$ 5,189,510</u>	<u>\$ 4,534,410</u>	<u>\$ 4,623,323</u>	<u>\$ 5,162,384</u>	<u>\$ 4,376,955</u>

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Fiscal Year				2012, as
	2016	2015 (6)	2014	2013	restated
REVENUES					
Taxes:					
Sales	\$ 6,450,967	\$ 6,281,286	\$ 5,933,824	\$ 6,530,609	\$ 6,312,870
Income	4,513,219	4,398,928	4,012,603	4,034,631	3,715,082
Tobacco	318,902	314,522	314,313	316,050	317,369
Property	51,735	52,241	41,215	27,429	30,656
Motor vehicle and fuel	1,823,998	1,694,779	1,650,579	1,592,911	1,581,909
Other	616,580	560,920	547,481	531,186	522,510
Intergovernmental	14,166,387	13,606,650	11,752,711	11,592,676	11,843,908
Licenses, fees, and permits	542,064	486,331	475,833	476,972	477,344
Hospital and nursing facility assessments	299,608	291,324	91,578	-	-
Earnings (loss) on investments (2)	175,444	295,125	739,859	499,919	190,055
Sales and charges for services (4)	188,667	193,553	185,682	182,075	188,806
Fines, forfeitures, and penalties	159,647	152,728	171,161	181,216	168,240
Gaming	91,748	89,512	86,326	86,507	85,535
Tobacco settlement	98,907	99,975	100,765	149,125	101,067
Proceeds from sale of trust land (3)	91,022	123,483	86,319	225,659	137,405
Other (5)	264,474	254,522	208,858	169,119	297,065
Total Revenues	<u>29,853,369</u>	<u>28,895,879</u>	<u>26,399,107</u>	<u>26,596,084</u>	<u>25,969,821</u>
EXPENDITURES					
Current:					
General government (4)	714,313	843,159	750,163	812,770	838,776
Health and welfare	15,074,454	14,388,149	12,643,455	12,216,622	12,029,530
Inspection and regulation	165,009	158,495	161,318	160,636	153,947
Education	6,132,751	5,857,390	5,572,414	5,369,538	5,332,141
Protection and safety	1,456,651	1,402,225	1,360,387	1,349,146	1,351,251
Transportation	815,811	700,080	687,798	683,607	745,306
Natural resources	189,614	189,302	193,043	194,714	202,677
Intergovernmental revenue sharing	3,176,183	2,966,400	2,778,299	2,685,168	2,473,535
Debt service:					
Principal	517,389	560,497	493,592	412,617	386,027
Interest and other fiscal charges	249,704	270,872	312,024	329,773	344,903
Capital outlay	814,002	783,926	829,630	765,339	769,716
Total Expenditures	<u>29,305,881</u>	<u>28,120,495</u>	<u>25,782,123</u>	<u>24,979,930</u>	<u>24,627,809</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>547,488</u>	<u>775,384</u>	<u>616,984</u>	<u>1,616,154</u>	<u>1,342,012</u>

Fiscal Year

2011	2010, as restated	2009	2008	2007, as restated
\$ 5,971,141	\$ 5,017,977	\$ 5,429,453	\$ 6,278,181	\$ 6,527,968
3,398,972	2,805,426	3,137,794	4,174,966	4,629,220
320,657	332,893	370,073	413,333	358,205
32,038	31,417	32,564	36,732	43,736
1,565,525	1,585,919	1,672,151	1,802,572	1,828,701
550,430	535,435	574,030	559,440	529,629
13,019,744	13,562,547	11,316,023	9,499,419	8,313,720
452,629	425,526	410,002	447,090	442,236
-	-	-	-	-
438,068	422,564	(318,321)	135,879	510,253
186,325	203,725	154,671	167,329	158,318
184,950	224,000	203,337	167,309	183,923
80,455	77,554	84,140	94,004	94,771
99,130	105,394	125,571	115,587	90,258
95,500	78,564	143,674	-	-
164,658	230,223	253,868	263,443	264,440
<u>26,560,222</u>	<u>25,639,164</u>	<u>23,589,030</u>	<u>24,155,284</u>	<u>23,975,378</u>
933,313	923,977	913,266	966,512	879,519
12,818,468	13,054,472	11,959,640	10,874,581	9,679,226
153,718	157,461	174,633	184,451	173,897
5,467,695	5,702,963	6,031,605	6,240,862	5,983,513
1,288,577	1,417,428	1,460,692	1,447,372	1,358,439
820,417	584,363	608,631	630,283	524,318
191,429	175,568	220,030	242,893	185,592
2,459,934	2,574,539	2,764,776	3,026,563	2,863,218
383,591	288,172	235,971	261,228	220,473
357,754	286,027	238,430	210,856	195,317
824,417	1,291,341	1,295,530	1,106,951	992,000
<u>25,699,313</u>	<u>26,456,311</u>	<u>25,903,204</u>	<u>25,192,552</u>	<u>23,055,512</u>
<u>860,909</u>	<u>(817,147)</u>	<u>(2,314,174)</u>	<u>(1,037,268)</u>	<u>919,866</u>

(Continued)

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

	Fiscal Year				2012, as restated
	2016	2015 (6)	2014	2013	
OTHER FINANCING SOURCES (USES)					
Transfers in	914,817	856,446	904,261	782,420	821,072
Transfers out	(1,367,979)	(1,392,301)	(1,397,332)	(1,256,408)	(1,323,778)
Proceeds from sale of trust land (3)	-	-	-	-	-
Proceeds from sale of capital assets	1,203	259	900	1,636	1,815
Capital lease and installment purchase contracts	3,579	1,025	113,914	15,158	8,166
Proceeds from notes and loans	-	783	29,130	51,550	9,541
Refunding bonds issued	-	754,285	-	837,340	455,900
Payment to refunded bond escrow agent	(62,630)	(900,813)	-	(954,372)	(560,228)
Bonds issued	-	-	-	194,295	259,460
Refunding grant anticipation notes issued	-	-	-	-	43,825
Grant anticipation notes issued	-	-	-	-	-
Refunding certificates of participation issued	427,540	-	305,675	62,630	-
Payment to refunded certificates of participation escrow agent	(422,841)	-	(310,059)	(42,096)	-
Certificates of participation issued	-	-	-	-	-
Premium on debt issued	58,933	149,554	6,770	136,210	90,753
Total Other Financing Sources (Uses)	<u>(447,378)</u>	<u>(530,762)</u>	<u>(346,741)</u>	<u>(171,637)</u>	<u>(193,474)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 100,110</u>	<u>\$ 244,622</u>	<u>\$ 270,243</u>	<u>\$ 1,444,517</u>	<u>\$ 1,148,538</u>

DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES

2016	2015 (6)	2014	2013	2012, as restated
2.7%	3.0%	3.2%	3.1%	3.1%

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) 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.
- (3) In fiscal year 2009, "Proceeds from sale of trust land" was moved from "Other financing sources (uses)" to "Revenues."
- (4) In fiscal year 2010, amounts were restated as a result of implementing GASB Statement No. 54.
- (5) Fiscal year 2012 other revenues was restated as a result of an agency fund being reclassified to a special revenue fund.
- (6) Historical data has not been restated for footnote items (4) - (5) in Schedule 3.

Fiscal Year

2011	2010, as restated	2009	2008	2007, as restated
862,040	1,106,250	1,248,267	897,771	910,605
(1,574,406)	(1,872,212)	(2,168,964)	(1,874,084)	(1,784,833)
-	-	-	249,970	199,089
3,712	3,088	2,127	28,233	10,162
4,583	187,836	4,056	23,556	132,985
11,113	32,628	23,139	19,529	-
-	-	-	82,880	-
-	-	-	(86,547)	-
180,000	425,420	621,050	563,950	325,000
-	-	-	-	-
158,585	-	55,420	68,000	-
-	-	-	-	-
-	-	-	-	-
150,110	998,795	580,035	238,990	-
42,291	77,709	70,083	48,972	26,201
(161,972)	959,514	435,213	261,220	(180,791)
<u>\$ 698,937</u>	<u>\$ 142,367</u>	<u>\$ (1,878,961)</u>	<u>\$ (776,048)</u>	<u>\$ 739,075</u>

3.0%

2.3%

1.9%

2.0%

1.9%

STATE OF ARIZONA
SCHEDULE 5
NET TAXABLE SALES BY CLASSIFICATION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

CLASSIFICATION (5)	Fiscal Year					
	2016	2015	2014	2013	2012	2011
Transporting (2)	\$ 56,139	\$ 57,588	\$ 54,981	\$ 41,324	\$ 52,137	\$ 41,555
Mining, oil and gas	154,947	111,808	116,678	115,775	105,614	96,514
Mining severance	607,840	994,478	1,047,580	1,193,176	1,623,111	1,609,451
Utilities	10,031,989	9,856,234	9,923,490	9,900,238	9,474,521	9,394,361
Communications	2,306,786	2,565,400	2,965,233	3,061,730	3,190,962	2,853,538
Private car and pipelines	2,577	6,498	5,616	6,250	1,186	1,908
Publishing	105,270	106,357	101,751	84,673	92,505	98,343
Job printing	236,324	259,672	321,225	235,349	252,603	266,564
Restaurants and bars	12,715,254	12,053,486	11,085,652	10,544,419	9,996,825	9,311,826
Amusements	1,342,700	1,252,514	1,096,945	1,051,581	1,037,059	994,092
Commercial lease (3)	2	6	2	2	1	2
Personal property rentals	3,689,976	3,453,882	3,355,048	3,254,822	3,257,588	3,056,386
Contracting	9,601,228	10,653,405	11,269,503	10,092,876	9,543,335	8,983,261
Retail	61,614,309	58,463,542	55,257,510	51,276,108	48,178,714	45,898,838
MRRRA amount (8)	160,125	26,816	-	-	-	-
Hotel/motel	2,819,143	2,675,510	2,334,373	2,221,059	2,156,864	2,039,283
Rental occupancy tax (7)	(503)	-	-	-	(3)	43
Use tax	5,703,365	5,659,094	4,749,508	5,186,464	5,302,844	4,610,921
Use tax-utilities (6)	38,945	48,070	62,511	10,283	10,022	10,040
Membership camping (7)	-	-	-	-	-	1
Total	\$ 111,186,416	\$ 108,244,360	\$ 103,747,606	\$ 98,276,129	\$ 94,275,888	\$ 89,266,927
Direct sales tax rate (4)	5.60%	5.60%	5.60%	6.60%	6.60%	6.60%

(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) A significant portion of the revenue base was subject to a sales tax rate of 5.6% for fiscal years 2007 through 2010, and 2014 through 2016. The sales tax rate was 6.6% for fiscal years 2011 through 2013. For fiscal years 2007 through 2016, 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 2007 through 2010 and 2014 through 2016. The hotel/motel tax rate was 6.5% for fiscal years 2011 through 2013. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with an affirmative vote of two-thirds of the members of each house. The 1.00% rate increase approved under Proposition 100 on May 18, 2010 increased the state transaction privilege and use rate by one percentage point beginning June 1, 2010 and ending May 31, 2013, which is reflected in this table.

(5) 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.

(6) Use tax-utilities was not reported prior to fiscal year 2008. Fiscal years 2007 and 2008 were reported beginning in fiscal year 2008.

(7) Effective November 1, 2006, membership camping and rental occupancy were repealed.

(8) MRRRA - Maintenance, Repair, Replacement or Alteration projects

Source: Arizona Department of Revenue Annual Reports for fiscal years 2016 and prior.

Fiscal Year

2010	2009	2008	2007
\$ 41,990	\$ 37,920	\$ 48,713	\$ 43,351
102,900	175,743	216,675	255,531
1,164,231	729,482	1,752,522	1,743,361
9,354,244	9,236,366	9,237,779	8,609,034
3,618,208	2,928,433	3,669,683	3,513,667
1,640	7,743	16,021	19,679
103,681	102,457	122,652	129,681
236,985	307,581	391,038	397,802
9,020,795	9,094,485	9,663,959	9,619,785
1,051,919	1,053,048	1,146,344	1,086,364
141	1	(443)	(2)
3,127,828	3,552,696	3,995,697	3,927,824
9,311,612	14,882,706	20,156,299	22,415,051
42,913,933	46,174,068	52,626,993	55,009,403
-	-	-	-
1,949,718	2,117,242	2,405,705	2,411,634
(62)	(25)	(2,669)	1,065
5,464,504	5,882,942	6,837,880	6,091,507
(35,594)	38,653	12,461	12,154
10	11	52	12
<u>\$ 87,428,683</u>	<u>\$ 96,321,552</u>	<u>\$ 112,297,361</u>	<u>\$ 115,286,903</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 2016		Fiscal Year 2007	
	Tax	Percentage	Tax	Percentage
	Collections	of Total	Collections	of Total
Transporting	\$ 2,807	0.05 %	\$ (1,257)	(0.02) %
Non-metal mining, oil and gas	4,842	0.08	7,979	0.12
Mining severance	15,196	0.24	43,549	0.68
Timbering severance - ponderosa (1)	-	-	11	-
Utilities	501,599	8.09	430,153	6.73
Communications	115,339	1.86	175,521	2.75
Private car and pipelines	129	-	939	0.01
Publishing	5,263	0.08	6,478	0.10
Job Printing	11,816	0.19	19,870	0.31
Restaurants and bars	635,763	10.25	480,515	7.52
Amusements	67,135	1.08	54,256	0.85
Personal property rentals	184,499	2.97	196,194	3.07
Contracting	480,061	7.74	1,118,584	17.52
Retail	3,080,715	49.65	2,747,814	43.03
MRRA amount (3)	8,006	0.13	-	-
Hotel/motel	155,053	2.50	132,476	2.07
Rental occupancy tax (1)	(15)	-	32	-
Use tax utilities	1,947	0.03	605	0.01
Use tax	283,352	4.57	302,256	4.73
License fees	(291)	-	129	-
Membership camping (1)	-	-	1	-
Jet fuel tax	4,291	0.07	4,857	0.08
Jet fuel use tax	805	0.01	906	0.01
Non sufficient funds	67	-	9	-
Telecommunications service assistance	-	-	(266)	-
Mandatory EFT fees	457	0.01	-	-
Other	5	-	-	-
Education tax (2)	645,012	10.40	666,184	10.43
Total	\$ 6,203,853	100.00 %	\$ 6,387,795	100.00 %

(1) Effective November 1, 2006 these rates were repealed.

(2) 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.

(3) MRRA - Maintenance, Repair, Replacement or Alteration projects

Source: Arizona Department of Revenue Annual Reports for fiscal years 2016 and 2007.

STATE OF ARIZONA
SCHEDULE 7
PERSONAL INCOME BY INDUSTRY (3)
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

<u>CLASSIFICATION</u>	Calendar Year Ended December 31					
	2015	2014	2013	2012	2011	2010
Farm earnings	\$ 1,324,383	\$ 1,173,073	\$ 1,312,963	\$ 838,149	\$ 986,598	\$ 537,775
Forestry and fishing	483,310	457,748	418,125	420,191	411,590	406,597
Mining	1,541,128	1,569,601	1,525,571	1,495,055	1,259,935	1,057,660
Utilities	1,624,649	1,647,974	1,565,076	1,533,360	1,576,104	1,517,087
Construction	9,472,084	9,202,800	8,790,400	8,003,318	7,947,236	7,825,408
Manufacturing	14,323,048	13,922,558	13,508,342	13,443,386	12,554,687	12,151,178
Wholesale trade	9,067,724	8,767,402	8,547,831	8,733,631	8,170,692	7,861,596
Retail trade	13,873,666	13,274,669	12,253,411	12,199,851	11,661,215	11,080,426
Transportation and warehousing	5,769,951	5,300,791	4,979,371	4,946,749	4,728,582	4,426,693
Information	4,213,446	4,009,064	3,504,838	3,055,255	2,900,083	2,909,306
Finance and insurance	13,176,494	12,179,439	11,671,079	10,799,241	9,972,362	9,604,969
Real estate, rental, and leasing	4,887,441	4,346,143	3,863,961	2,531,787	1,863,755	1,488,411
Professional and technical services	14,255,813	13,520,247	12,947,459	12,599,318	12,402,658	11,636,612
Managing companies/enterprises	3,265,879	3,195,110	2,935,527	2,608,755	2,346,356	2,279,559
Administrative and waste services	11,411,531	10,777,735	10,163,430	9,340,137	8,991,287	8,747,337
Educational services	3,073,425	3,039,213	2,880,938	2,940,193	2,723,794	2,566,829
Health care and social assistance	22,422,958	21,264,826	20,594,056	20,050,230	19,524,082	18,762,745
Arts, entertainment, and recreation	2,166,361	2,157,676	1,925,711	1,764,728	1,465,553	1,380,524
Accommodation and food services	7,073,784	6,535,218	6,516,177	6,221,565	5,783,947	5,473,932
Other services, except public administration	6,678,618	6,442,474	5,973,996	5,897,588	5,437,293	5,175,265
Government and government enterprises	30,593,497	29,889,478	29,631,725	29,431,030	29,046,914	28,808,332
Other (1)	86,661,942	83,058,606	76,671,517	77,366,788	74,084,162	69,354,364
Total	\$ 267,361,132	\$ 255,731,845	\$ 242,181,504	\$ 236,220,305	\$ 225,838,885	\$ 215,052,605
Average effective rate (2)	1.48%	1.47%	1.43%	1.44%	1.37%	1.33%

- (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 2006 through 2014 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

2009	2008	2007	2006
\$ 415,586	\$ 660,325	\$ 837,247	\$ 709,433
396,382	380,207	429,782	426,383
1,125,533	1,523,010	1,222,918	972,449
1,549,132	1,611,124	1,492,136	1,370,412
9,444,991	12,482,901	15,102,178	15,883,558
12,112,335	13,616,693	13,810,086	13,401,375
8,005,507	8,607,556	8,655,055	7,795,662
11,472,010	11,802,395	12,757,932	12,917,548
4,439,809	4,703,944	4,940,699	4,685,722
3,181,570	3,312,488	3,174,455	3,101,111
9,474,862	9,604,128	10,362,834	10,245,182
1,738,997	3,116,008	3,389,489	4,163,954
11,922,372	12,953,739	12,386,226	11,328,537
2,426,188	2,599,223	2,495,921	2,118,419
9,054,684	9,775,205	9,737,604	9,390,418
2,313,146	2,047,406	1,814,239	1,668,433
18,025,043	17,449,539	15,885,446	14,536,049
1,358,286	1,425,950	1,481,767	1,547,598
5,578,026	6,117,394	6,406,030	6,031,787
5,141,183	5,259,542	5,480,994	5,288,770
28,547,342	28,488,923	26,957,426	25,039,926
66,335,245	66,780,185	61,682,882	56,618,001
<u>\$ 214,058,229</u>	<u>\$ 224,317,885</u>	<u>\$ 220,503,346</u>	<u>\$ 209,240,727</u>
1.13%	1.15%	1.55%	1.75%

STATE OF ARIZONA
SCHEDULE 8
PERSONAL INCOME TAX RATES
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2015	2014	2013	2012	2011
<u>AVERAGE EFFECTIVE RATE (3)</u>					
Personal Income Tax Revenue (1)	\$ 3,968,883	\$ 3,761,764	\$ 3,463,266	\$ 3,398,902	\$ 3,099,177
Personal Income (2)	267,361,132	255,731,845	242,181,504	236,220,305	225,838,885
Average Effective Rate (3)	1.48%	1.47%	1.43%	1.44%	1.37%

TAX RATES ON THE PORTION OF TAXABLE INCOME IN RANGES (4)

\$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 2006 through 2014 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 2013 AND 2006 (1)
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2013			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u>				
\$50 and under	1,885,150	66.98%	\$ 457,028	13.62%
\$50 - \$100	572,525	20.34%	747,422	22.27%
\$100 - \$500	342,317	12.16%	1,426,799	42.51%
\$500 and over	14,442	0.52%	724,929	21.60%
Total	2,814,434	100.00%	\$ 3,356,178	100.00%

- (1) The taxable year 2013 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 2013, filed from January 2014 forward (or 2006, filed from January 2007 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

	2010	2009	2008	2007	2006
\$	2,870,565	\$ 2,423,215	\$ 2,575,453	\$ 3,414,304	\$ 3,666,923
	215,052,605	214,058,229	224,317,885	220,503,346	209,240,727
	1.33%	1.13%	1.15%	1.55%	1.75%
	2.59%	2.59%	2.59%	2.59%	2.73%
	2.88%	2.88%	2.88%	2.88%	3.04%
	3.36%	3.36%	3.36%	3.36%	3.55%
	4.24%	4.24%	4.24%	4.24%	4.48%
	4.54%	4.54%	4.54%	4.54%	4.79%

Taxable Year Ended December 31, 2006

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,756,430	67.56%	\$ 471,328	12.78%
549,506	21.14%	716,077	19.42%
275,381	10.59%	1,206,579	32.72%
18,582	0.71%	1,293,229	35.08%
<u>2,599,899</u>	<u>100.00%</u>	<u>\$ 3,687,213</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, 2016

(Expressed in Thousands, Except Amount of Debt per Capita)

	Fiscal Year					
	2016	2015	2014, as restated	2013	2012	2011
GOVERNMENTAL ACTIVITIES:						
Revenue bonds	\$ 2,899,875	\$ 3,141,190	\$ 3,406,195	\$ 3,606,720	\$ 3,593,420	\$ 3,529,115
Grant anticipation notes	147,320	194,670	247,710	296,240	335,230	392,495
Certificates of participation	1,891,460	2,030,805	2,200,675	2,360,595	2,495,825	2,611,255
Capital leases (3)	334,909	408,784	423,513	360,316	391,184	400,540
Installment purchase contracts	176	349	-	-	177	245
Notes payable	22,179	22,179	89,865	105,817	55,666	59,891
Premiums and discounts on debt	492,349	492,048	427,865	474,747	396,465	342,602
Deferred amount on refundings (2)	-	-	-	(19,945)	(813)	(1,221)
Total Governmental Activities	<u>5,788,268</u>	<u>6,290,025</u>	<u>6,795,823</u>	<u>7,184,490</u>	<u>7,267,154</u>	<u>7,334,922</u>
BUSINESS-TYPE ACTIVITIES:						
Revenue bonds	2,701,665	2,675,430	2,302,035	2,237,710	1,942,755	1,742,125
Certificates of participation	600,556	637,986	676,345	714,735	756,980	812,706
Capital leases	141,117	168,960	132,957	135,519	163,637	167,841
Installment purchase contracts	2,114	2,805	4,098	5,758	8,397	10,511
Notes payable	-	-	-	-	12,643	292
Premiums and discounts on debt	268,474	231,178	130,315	123,051	87,993	41,393
Deferred amount on refundings (2)	-	-	-	(46,096)	(33,391)	(20,875)
Total Business-type Activities	<u>3,713,926</u>	<u>3,716,359</u>	<u>3,245,750</u>	<u>3,170,677</u>	<u>2,939,014</u>	<u>2,753,993</u>
Total Primary Government	<u>\$ 9,502,194</u>	<u>\$ 10,006,384</u>	<u>\$ 10,041,573</u>	<u>\$ 10,355,167</u>	<u>\$ 10,206,168</u>	<u>\$ 10,088,915</u>
Debt as a Percentage of						
Personal Income (1)	3.6%	3.9%	4.1%	4.4%	4.5%	4.7%
Amount of Debt per Capita (1)	\$ 1,392	\$ 1,487	\$ 1,514	\$ 1,580	\$ 1,578	\$ 1,574

Note: Details regarding the State's outstanding debt can be found in the notes to the financial statements.

- (1) See Schedule 22 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 2016 contains data for the calendar year ending December 31, 2015.
- (2) Implementation of GASB Statement No. 65 in fiscal year 2014 required the amortization of deferred amount on refundings to be reported as deferred outflow of resources.
- (3) For fiscal year 2014, capital leases related to private prisons were restated due to a correction of an error.

Fiscal Year

	2010	2009	2008	2007
\$	3,522,605	\$ 3,251,580	\$ 2,759,070	\$ 2,328,840
	304,480	329,650	298,280	282,860
	2,571,125	1,649,870	1,135,640	959,865
	412,919	236,125	249,876	242,209
	901	6,343	8,908	10,644
	60,712	42,668	22,838	3,309
	334,721	285,613	242,816	225,071
	(5,197)	(9,171)	(13,145)	(14,266)
	<u>7,202,266</u>	<u>5,792,678</u>	<u>4,704,283</u>	<u>4,038,532</u>
	1,692,825	1,239,675	902,255	868,565
	840,719	872,829	903,843	935,127
	171,448	175,453	179,052	166,780
	13,043	16,418	13,024	9,544
	360	674	1,022	1,354
	39,705	43,112	38,211	39,582
	(23,100)	(25,294)	(27,711)	(29,211)
	<u>2,735,000</u>	<u>2,322,867</u>	<u>2,009,696</u>	<u>1,991,741</u>
\$	<u>9,937,266</u>	<u>\$ 8,115,545</u>	<u>\$ 6,713,979</u>	<u>\$ 6,030,273</u>

4.6% 3.6% 3.0% 2.9%

\$ 1,567 \$ 1,292 \$ 1,089 \$ 1,000

STATE OF ARIZONA
SCHEDULE 11
LEGAL DEBT MARGIN INFORMATION
ARIZONA STATE UNIVERSITY
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year (1)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (2)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2016	\$ 2,152,083	\$ 172,167	\$ 103,300	\$ 68,867	4.80 %
2015	2,044,231	163,538	106,300	57,238	5.20 %
2014	1,844,828	147,586	107,000	40,586	5.80 %
2013	1,710,909	136,873	94,100	42,773	5.50 %
2012	1,612,000	128,960	80,600	48,360	5.00 %
2011	1,606,250	128,500	77,100	51,400	4.80 %
2010	1,894,737	151,579	108,000	43,579	5.70 %
2009	1,865,385	149,231	97,000	52,231	5.20 %
2008	2,017,544	161,404	115,000	46,404	5.70 %
2007	1,880,769	150,462	97,800	52,662	5.20 %

- (1) For fiscal years 2007 through 2016, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, and 2018-2020 capital improvement plans, respectively.
- (2) 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 12
LEGAL DEBT MARGIN INFORMATION
UNIVERSITY OF ARIZONA
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year (1)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (2)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2016	\$ 1,902,083	\$ 152,167	\$ 91,300	\$ 60,867	4.80 %
2015	1,856,098	148,488	76,100	72,388	4.10
2014	1,739,216	139,137	88,700	50,437	5.10
2013	1,683,019	134,642	89,200	45,442	5.30
2012	1,611,765	128,941	82,200	46,741	5.10
2011	1,556,364	124,509	85,600	38,909	5.50
2010	1,817,647	145,412	92,700	52,712	5.10
2009	1,681,818	134,545	92,500	42,045	5.50
2008	1,681,132	134,491	89,100	45,391	5.30
2007	1,657,971	132,638	114,400	18,238	6.90

- (1) For fiscal years 2007 through 2016, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, and 2018-2020 capital improvement plans, respectively.
- (2) 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
NORTHERN ARIZONA UNIVERSITY
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year (1)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (2)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2016	\$ 534,694	\$ 42,776	\$ 26,200	\$ 16,576	4.90 %
2015	514,673	41,174	22,800	18,374	4.43
2014	485,265	38,821	24,700	14,121	5.09
2013	453,039	36,243	24,600	11,643	5.43
2012	427,586	34,207	24,800	9,407	5.80
2011	405,109	32,409	22,200	10,209	5.48
2010	423,601	33,888	28,000	5,888	6.61
2009	419,448	33,556	28,900	4,656	6.89
2008	430,360	34,429	27,500	6,929	6.39
2007	410,811	32,865	30,400	2,465	7.40

- (1) For fiscal years 2007 through 2016, projections are based upon the University's fiscal years 2009-2011, 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, and 2018-2020 capital improvement plans, respectively.
- (2) 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
PLEDGED-REVENUE COVERAGE
ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year	(1), (2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2016	\$ 589,476	\$ 70,195	\$ 74,248	\$ 144,443	4.1
2015	566,352	61,660	75,937	137,597	4.1
2014	537,768	58,485	80,495	138,980	3.9
2013	512,971	60,540	78,198	138,738	3.7
2012	392,648	67,885	71,113	138,998	2.8
2011	504,175	71,770	83,960	155,730	3.2
2010	502,874	68,140	87,661	155,801	3.2
2009	509,183	64,190	89,825	154,015	3.3
2008	658,616	60,645	75,538	136,183	4.8
2007	635,140	57,825	73,785	131,610	4.8

- (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 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 15

PLEDGED-REVENUE COVERAGE**ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2016

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service			Coverage
	Principal	Interest	Total		
2016	\$ 262,971	\$ 65,585	\$ 38,001	\$ 103,586	2.5
2015	254,871	70,940	32,652	103,592	2.5
2014	243,786	58,600	44,988	103,588	2.4
2013	227,800	55,870	47,721	103,591	2.2
2012	216,281	55,460	48,129	103,589	2.1
2011	206,545	45,970	42,496	88,466	2.3
2010	199,672	33,315	38,225	71,540	2.8
2009	219,165	13,825	17,193	31,018	7.1
2008	253,742	19,045	10,673	29,718	8.5
2007	262,264	-	-	-	N/A

(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 16

PLEDGED-REVENUE COVERAGE**SCHOOL FACILITIES BOARD STATE SCHOOL IMPROVEMENT REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2016

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service			Coverage
	Principal	Interest	Total		
2016	\$ 645,012	\$ 59,800	\$ 4,417	\$ 64,217	10.04
2015	626,401	57,920	6,274	64,194	9.76
2014	601,854	46,720	9,575	56,295	10.69
2013	567,824	43,680	13,487	57,167	9.93
2012	542,395	41,405	22,804	64,209	8.45
2011	514,346	39,215	25,088	64,303	8.00
2010	504,391	37,230	27,074	64,304	7.84
2009	558,900	35,420	28,885	64,305	8.69
2008	645,828	33,810	30,498	64,308	10.04
2007	666,184	31,055	31,893	62,948	10.58

(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 17
PLEDGED-REVENUE COVERAGE
SCHOOL FACILITIES BOARD STATE SCHOOL TRUST REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year	Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2016	\$ 43,506	\$ 20,180	\$ 3,115	\$ 23,295	1.87
2015	53,241	19,380	3,911	23,291	2.29
2014	57,345	19,275	4,971	24,246	2.37
2013	49,645	18,315	5,933	24,248	2.05
2012	39,155	17,400	6,846	24,246	1.61
2011	42,191	16,535	7,714	24,249	1.74
2010	38,147	15,710	8,539	24,249	1.57
2009	72,263	15,105	9,143	24,248	2.98
2008	72,263	14,470	8,400	22,870	3.16
2007	72,263	13,980	11,524	25,504	2.83

(1) Pledged revenues consist of expendable revenue from the State School Trust. This revenue includes the State Treasurer's formula distribution of earnings on permanent fund investments as specified in the Arizona Constitution. Additionally, the State Land Commissioner distributes interest received from financed sales of trust lands and revenue received from land trust leases, except that, under current statutes, the amount of State School Trust Revenues available to pay debt service on all State School Trust Revenue Obligations shall not exceed \$72,263. Expendable trust revenues in excess of \$72,263 must be deposited in the Classroom Site Fund.

STATE OF ARIZONA
SCHEDULE 18
PLEDGED-REVENUE COVERAGE
LOTTERY REVENUE BONDS
FOR THE LAST SIX FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year	Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2016	\$ 200,769	\$ 19,205	\$ 18,297	\$ 37,502	5.35
2015	172,108	18,305	19,194	37,499	4.59
2014	174,374	17,445	20,055	37,500	4.65
2013	174,373	16,790	20,710	37,500	4.65
2012	96,200	-	20,709	20,709	4.65
2011	96,200	-	21,630	21,630	4.45

(1) No debt service payments were due prior to fiscal year 2011.
(2) Pledged revenues consist of lottery revenue deposited to the Lottery Fund net of operating expenses of the lottery.

STATE OF ARIZONA
SCHEDULE 19
PLEDGED-REVENUE COVERAGE
ARIZONA STATE UNIVERSITY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service					Coverage
		Principal	Interest	Net Payments		Total	
				(Receipts) On			
				Swap Agreements			
2016	\$ 1,450,651	\$ 40,155	\$ 47,148	\$ 2,991	\$ 90,294	16.07	
2015	1,300,624	45,650	50,246	3,393	99,289	13.10	
2014	1,161,306	44,770	43,623	3,507	91,900	12.64	
2013	1,047,661	33,965	41,477	3,631	79,073	13.25	
2012	977,828	31,215	39,560	3,612	74,387	13.15	
2011	876,770	28,595	35,051	3,791	67,437	13.00	
2010	782,727	26,975	33,003	3,716	63,694	12.29	
2009	702,797	21,555	21,896	3,692	47,143	14.91	
2008	638,707	19,135	16,682	2,448	38,265	16.69	
2007	580,102	17,125	21,339	186	38,650	15.01	

(1) Pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue.

STATE OF ARIZONA
SCHEDULE 20
PLEDGED-REVENUE COVERAGE
UNIVERSITY OF ARIZONA REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year	(1), (2) Gross Revenues	(1) Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2016	\$ 1,684,171	\$ 1,451,735	\$ 232,436	\$ 25,205	\$ 45,534	\$ 70,739	3.29
2015	1,567,859	1,374,458	193,401	21,575	37,732	59,307	3.26
2014	1,400,095	1,261,247	138,848	22,600	38,250	60,850	2.28
2013	1,356,478	1,199,559	156,919	21,895	34,556	56,451	2.78
2012	1,226,227	1,126,649	99,578	17,375	31,480	48,855	2.04
2011	1,215,062	1,056,408	158,654	24,720	28,571	53,291	2.98
2010	1,128,091	962,469	165,622	23,860	24,593	48,453	3.42
2009	1,044,354	911,440	132,914	22,725	15,437	38,162	3.48
2008	1,113,954	1,005,572	108,382	21,235	14,978	36,213	2.99
2007	982,559	899,084	83,475	17,440	14,166	31,606	2.64

(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 21
PLEDGED-REVENUE COVERAGE
NORTHERN ARIZONA UNIVERSITY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016
(Expressed in Thousands)

Fiscal Year	(1), (2), (3) Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
2016	\$ 323,986	\$ 6,500	\$ 23,149	\$ 29,649	10.93
2015	303,860	6,500	20,310	26,810	11.33
2014	283,468	6,615	17,305	23,920	11.85
2013	263,733	6,610	15,474	22,084	11.94
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

- (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.
(3) Fiscal year 2013 gross revenue was revised by NAU in fiscal year 2014.

STATE OF ARIZONA
SCHEDULE 22
DEMOGRAPHIC AND ECONOMIC STATISTICS
FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended	Population (1,3)	Personal Income (3) (in thousands)	Per Capita Personal (2) Income	Unemployment Rate (4)
December 31				
2015	6,828,065	\$ 267,361,132	\$ 39,156	5.5
2014	6,728,783	255,731,845	38,006	6.2
2013	6,630,799	242,181,504	36,524	7.0
2012	6,553,262	236,220,305	36,046	7.7
2011	6,468,732	225,838,885	34,912	8.5
2010	6,408,208	215,052,605	33,559	9.6
2009	6,343,154	214,058,229	33,746	10.6
2008	6,280,362	224,317,885	35,717	7.8
2007	6,167,681	220,503,346	35,751	4.2
2006	6,029,141	209,240,727	34,705	3.6

- (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 at Arizona Department of Administration (for unemployment rate).

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STATE OF ARIZONA
 SCHEDULE 23
PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO

Employer	Calendar Year Ended December 31, 2015			Calendar Year Ended December 31, 2006		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank (1)	Percentage of Total State Employment
State of Arizona	50,816	1	1.61 %	49,305	1	1.65 %
Banner Health	35,406	2	1.12	16,400	3	0.55
Wal-Mart Stores, Inc.	32,373	3	1.03	28,800	2	0.96
Fry's Food Stores	17,286	4	0.55	11,780	7	0.40
City of Phoenix	14,585	5	0.46	14,166	4	0.47
Wells Fargo	14,480	6	0.46	11,800	6	0.40
Maricopa County	13,567	7	0.43	13,274	5	0.44
Dignity Health	12,100	8	0.39	-	-	-
Intel Corp.	11,300	9	0.36	-	-	-
HonorHealth	10,500	10	0.33	-	-	-
U.S. Postal Service	-	-	-	11,000	8	0.37
Raytheon Co.	-	-	-	10,750	9	0.36
Total	212,413		6.74 %	167,275		5.60 %

(1) The 10th rank is not available.

Source: Phoenix Business Journal, Book of Lists 2016 and 2007 for employers.

STATE OF ARIZONA
SCHEDULE 24
STATE EMPLOYEES BY FUNCTION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016

	Fiscal Year					
	2016	2015	2014	2013	2012	2011
FULL-TIME EQUIVALENT EMPLOYEES						
General government:						
Lottery	98.8	98.8	98.8	97.8	104.0	104.0
Arizona State Retirement System	250.9	246.9	246.9	233.9	236.0	236.0
Department of Revenue	880.8	880.8	861.8	860.3	935.0	935.0
All other	2,331.6	2,308.6	2,229.6	2,214.4	2,427.6	2,646.5
Health and welfare:						
Department of Economic Security	4,147.7	3,882.6	5,654.1	5,453.5	3,726.0	3,726.0
Department of Child Safety	3,057.1	3,045.1	-	-	-	-
Arizona Health Care Cost Containment System	2,214.3	2,208.3	2,217.3	2,217.3	1,407.3	1,423.0
Department of Health Services	1,176.7	1,176.7	1,176.7	1,176.7	1,513.3	1,513.3
All other	961.6	949.6	946.6	946.6	1,098.5	954.5
Inspection and regulation	1,656.4	1,650.4	1,643.9	1,649.8	1,801.2	1,807.7
Education:						
Universities	15,635.7	15,635.7	15,607.7	15,478.7	16,964.2	15,754.2
All other	843.9	840.9	838.9	834.4	886.5	896.0
Protection and safety:						
Department of Corrections	9,534.0	9,534.0	9,384.0	10,118.2	10,015.2	10,015.2
Department of Juvenile Corrections	738.5	738.5	738.5	738.5	1,001.7	1,001.7
Department of Public Safety	1,907.7	1,907.7	1,904.7	1,903.7	2,139.8	2,081.8
All other	98.6	97.6	95.6	90.1	112.6	117.9
Department of Transportation	4,548.0	4,548.0	4,548.0	4,548.0	4,548.0	4,548.0
Natural resources	733.5	730.5	716.5	716.5	930.2	937.2
Total	50,815.8	50,480.7	48,909.6	49,278.4	49,847.1	48,698.0

- (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) The change in fiscal year 2015 full-time equivalent employees was primarily due to the result of a division within the Department of Economic Security being established as the Department of Child Safety.

Source: The Executive Budget (Detail). Includes only those positions funded by appropriated funds approved in the Executive Budget.

Fiscal Year			
2010	2009	2008	2007
104.0	110.0	110.0	110.0
236.0	236.0	235.0	231.0
863.0	1,164.0	1,164.0	1,148.0
2,746.5	2,989.2	2,999.2	2,957.5
4,201.0	4,201.0	4,099.2	3,874.4
-	-	-	-
1,484.0	1,635.8	1,629.0	1,617.3
1,538.6	1,699.1	1,702.1	1,680.4
966.5	981.5	981.5	859.9
1,820.7	1,943.1	1,930.1	1,853.7
15,664.5	17,353.5	17,138.8	16,975.0
972.4	1,003.4	1,001.4	969.0
9,755.9	9,932.5	9,755.9	9,726.9
1,050.7	1,163.7	1,163.7	1,195.7
2,099.8	2,114.8	2,108.8	2,065.8
118.4	134.9	133.9	125.4
4,548.0	4,748.0	4,744.0	4,703.5
956.7	1,009.7	1,007.7	967.3
<u>49,126.7</u>	<u>52,420.2</u>	<u>51,904.3</u>	<u>51,060.8</u>

STATE OF ARIZONA
SCHEDULE 25
OPERATING INDICATORS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2016

	Fiscal Year						
	2016	2015	2014	2013	2012	2011	2010
FUNCTIONS/PROGRAMS							
General government:							
Number of tax returns received (in millions)	5.9	5.7	5.7	5.5	5.4	5.4	5.2
Health and welfare:							
Arizona Health Care Cost Containment System membership (2)	1,849,578	1,709,550	1,508,690	1,318,650	1,314,210	1,392,810	1,392,420
Average monthly number of recipients of temporary assistance for needy families	N/A	27,272	32,888	39,050	39,194	44,842	82,127
Average monthly number of persons receiving food stamp benefits	N/A	1,027,845	1,070,674	1,116,068	1,123,068	1,049,522	986,413
Inspection and regulation:							
Nonfatal occupational injuries and illnesses:							
Total recordable cases (in thousands) (3)	65.0	65.4	70.6	66.5	67.9	66.4	75.2
Incident rate per 100 full-time workers (3)	3.1	3.2	3.5	3.4	3.5	3.5	3.7
Education:							
Public school enrollment, grades K-12 (4)	1,105,592	1,098,701	1,084,276	1,077,703	1,066,740	1,062,200	1,068,987
Protection and safety:							
Number of miles patrolled by the Highway Patrol	N/A	19,280,016	19,222,811	18,914,572	19,465,944	19,953,766	21,275,292
State prison adult inmate population (5)	42,902	42,611	41,773	40,273	39,877	40,181	40,477
Transportation:							
Number of registered vehicles (6)	7,970,946	7,694,309	7,453,046	7,180,797	6,823,906	6,839,659	6,740,536
Number of driver licenses issued (7)	5,083,085	4,979,520	1,188,903	1,159,695	1,184,630	1,196,675	1,241,977
Natural resources:							
Game and Fish Department's license and tag sales (8)	N/A	726,285	822,923	848,617	815,488	826,385	874,442
Universities:							
University full-time equivalent students (9)	158,681	148,819	141,264	136,884	134,051	129,653	122,734
Unemployment compensation:							
Number of initial unemployment claims filed	223,141	229,770	257,951	261,418	288,097	311,472	363,189
Industrial Commission special fund:							
No-insurance awards issued	1,982	1,599	1,303	1,618	1,365	882	1,781
Number of vocational rehabilitation awards issued	111	125	170	136	125	132	128
Lottery:							
Total lottery sales (in millions)	\$ 870.9	\$ 750.0	\$ 723.9	\$ 692.9	\$ 646.7	\$ 583.5	\$ 551.5
Other business-type activities:							
Arizona Health Care Cost Containment System's Healthcare Group membership (10)	-	-	-	6,370	7,080	8,260	10,760

N/A = Not available

- (1) 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 2016 contains data for the calendar year ending December 31, 2015. 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 2016 contains data from the October 1, 2015 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.
- (6) Count represents the total number of vehicles registered as of the end of the fiscal year.
- (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 2016 contains data for the calendar year ending December 31, 2015.
- (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 2016 contains data for the fall 2015 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. Healthcare Group ceased operations on December 31, 2013.

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		
2009	2008	2007
5.7	5.6	5.5
1,282,910	1,136,585	1,075,125
83,969	80,221	82,408
752,772	600,549	537,072
84.0	101.8	99.4
3.9	4.6	4.6
1,062,618	1,132,963	1,106,207
21,987,920	21,881,034	20,282,212
39,628	38,897	37,088
6,692,834	6,733,610	6,608,726
1,246,358	1,200,227	1,266,973
874,363	896,143	940,223
118,743	113,092	110,580
396,755	226,772	185,397
2,244	2,748	3,265
103	118	133
\$ 484.5	\$ 472.9	\$ 462.2
14,560	21,646	26,914

STATE OF ARIZONA
SCHEDULE 26
CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	Fiscal Year						
	2016	2015	2014	2013	2012	2011	2010
Protection and safety:							
Number of adult prison facilities (2)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (1)	6,822	6,800	6,800	6,751	6,751	6,722	6,789
Number of bridges (1)	4,858	4,798	4,787	4,754	4,754	4,741	4,700
Natural resources:							
State Trust acres	9,216,213	9,217,704	9,223,617	9,223,873	9,302,256	9,252,495	9,258,071
Universities:							
Number of facilities (3)	1,268	1,258	1,212	1,705	1,711	1,740	1,737
Gross square feet (in thousands) (3)	44,665	46,054	44,658	41,141	39,933	37,967	37,589

Note: No capital asset indicators are available for the general government, health and welfare, inspection and regulation, education, and other business-type activity functions.

- (1) 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.
- (2) The Arizona Department of Corrections also contracts with private prison facilities to provide custody and treatment.
- (3) 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, Corrections, and the Universities.

Fiscal Year		
2009	2008	2007
10	10	10
6,753	6,785	6,817
4,648	4,637	4,648
9,259,296	9,260,253	9,262,781
1,670	1,669	1,663
37,186	36,000	34,946

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