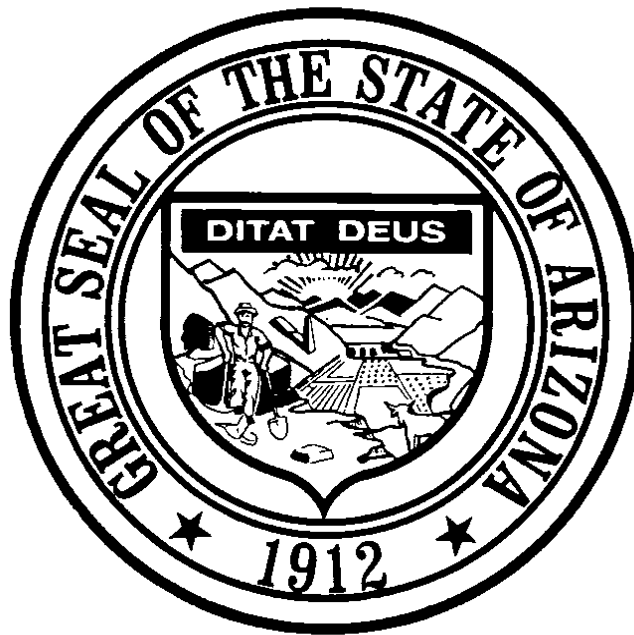


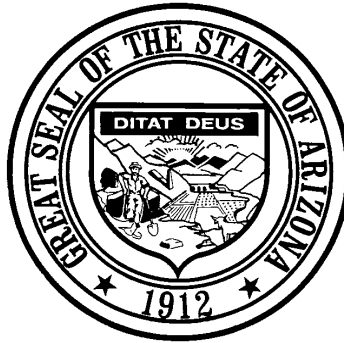
STATE OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008



Janice K. Brewer
GOVERNOR



**PREPARED BY
ARIZONA DEPARTMENT OF ADMINISTRATION
FINANCIAL SERVICES DIVISION
GENERAL ACCOUNTING OFFICE**



STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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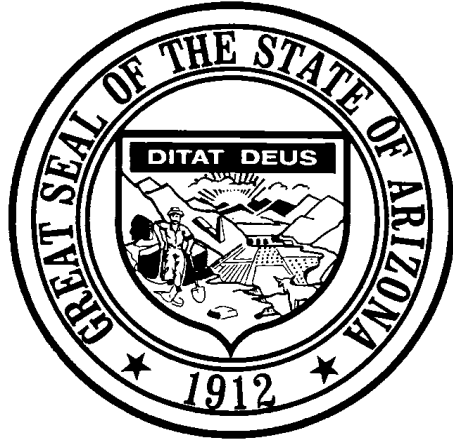
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INTRODUCTORY SECTION



JANICE K. BREWER
GOVERNOR

WILLIAM BELL
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 NORTH 15th AVENUE • SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

May 26, 2009

The Honorable Janice K. Brewer,
Governor of the State of Arizona;
Members of the Legislature;
Ruth V. McGregor, 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, 2008. Responsibility for the accuracy of data, as well as the completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the major and non-major funds of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

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

INTERNAL CONTROLS

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

INDEPENDENT AUDIT

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

PROFILE OF THE GOVERNMENT

The State of Arizona was admitted to the Union as the 48th state in 1912. Arizona is the sixth largest state, with 113,998 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 20,000 million acres of Native American reservations and tribal communities are located in Arizona.

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

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

FINANCIAL REPORTING ENTITY

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

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

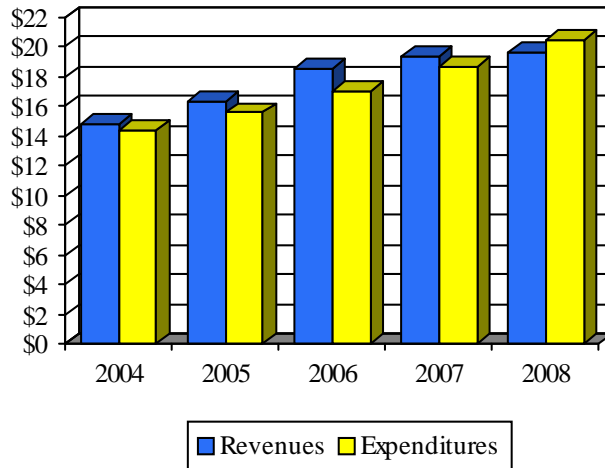
BUDGETARY CONTROLS

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

GENERAL FUND BALANCE

Graph 1 details 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.

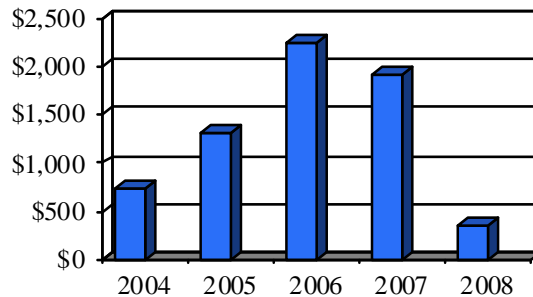
Graph 1
General Fund Revenues and Expenditures
for last 5 fiscal years
(Dollars in billions)



The General Fund ended the June 30, 2008 fiscal year with \$108.914 million in unreserved fund balance and a \$252.708 million reserved fund balance for a total fund balance of \$361.622 million. This compares to the previous year’s total fund balance of \$1.9 billion. Included in the \$252.708 million reserved fund balance is \$147.212 million for the Budget Stabilization Fund. The Budget Stabilization Fund is a form of Rainy Day Fund established by the Legislature in 1991.

Graph 2 details the General Fund Balance for the last five fiscal years:

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



ECONOMIC CONDITION AND OUTLOOK

The following economic summary is excerpted from the Arizona Department of Commerce's Arizona's Workforce, released on October 2, 2008.

The Arizona Department of Commerce, Research Administration's (RA) updated forecast projects a continued loss of nonfarm jobs for the calendar years 2008-09 forecast period, with a decrease of more than 47,000 jobs (-1.80%).

For 2008, RA forecasts a loss of 34,000 jobs (-1.30%), and in 2009, RA projects employment reductions of 13,500 (-0.50%). In contrast, the previous forecast released in May 2008 projected a loss of 9,200 nonfarm jobs (-0.30%) for the entire two-year forecast period.

Global Insight, a major economics forecasting and consulting firm based in Waltham, MA., projects that national nonfarm employment will remain unchanged in 2008 and then have a slight loss of 150,000 jobs (-0.10%) in 2009.

RA expects an Arizona recovery will be delayed until late 2009 and early 2010 because of higher commodity prices (especially for food and energy), stagnant incomes, and the effects of the crisis in finance and housing. Stagnant incomes and rising prices have reduced the real spending power of the consumer and damaged the industries dependent on consumer spending such as trade, transportation, leisure, and hospitality.

Indicators of the continued downturn in the housing market include rising rates of mortgage foreclosures, declining sales of new and existing homes, higher inventories of unsold houses, falling housing starts, and a continued decline in home prices. The reduction of credit availability, as a result of widening financial market instability, has served to compound the downturn in housing by increasing the difficulty in securing home loans for many buyers. As a result of tighter credit, less money is available to make loans, not only for houses, but also other consumer and business purchases. Because of this reduced spending, firms are expected to decrease output and employment.

Unfortunately, the current financial crisis has spread to other parts of the world and is contributing to the slowdown in global economic growth. Besides financial turbulence, higher commodity prices (especially for food and energy) have also contributed to a global economic slowdown. RA projects economic and financial problems in Asia and Europe will impact Arizona by reducing demand for the State's exports and limiting the supply of imported capital available for domestic lending.

As a result of worsening problems in the financial and housing markets, job losses in construction are projected to deepen during the 2008-09 forecast period to number more than 44,000, or a decline of almost 20.00%. RA projects a loss of 31,000 jobs in 2008 and 13,000 jobs for 2009.

The downturn in the construction industry is projected to contribute to the reduction of employment in the professional and business services industry group. Companies in this major industry group hire many construction employees through the employment services sector, with its many contract and temporary labor service firms. As a result, RA projects a loss of more than 7,000 jobs (-1.90%) for the forecast period.

Job losses in financial activities are forecast to total more than 10,000 jobs (-5.70%) from 2008 to 2009. Recent merger and acquisition activity in the financial services industry is projected to contribute to employment decreases.

Slowing economic growth in the domestic and international economy has reduced the demand for goods produced in Arizona's factories. RA forecasts a reduction of almost 6,000 jobs (-3.30%), in manufacturing in 2008 and 2009 as a consequence of decreased demand.

The trade, transportation, and utilities industry group is forecast to have job losses as a result of curtailed business and consumer spending in response to the economic downturn. During the forecast period, RA projects that total job decreases will number 7,000 (-1.30%).

The other services industry group is projected to have a total reduction of 1,600 jobs (-1.70%) over the two-year period. Increased demand for repair services, however, is forecast to bolster this major industry as a result of financially stressed businesses and consumers delaying the purchases of new equipment and machinery.

Information job reductions are forecast to number 1,400 (-3.30%) in 2008 and 2009.

The educational and health services industry group is projected to have the largest job growth of any major industry group with a gain of more than 18,000 jobs (6.10%) in the forecast period. Despite a growing and aging population, the growth rate is forecast to slow as a consequence of the current economic downturn.

Employment gains in the public sector are forecast to number 7,500 (1.80%) in 2008 and 2009. The reduction in government tax revenue as a result of a slowing economy is forecast to sharply curtail job growth in 2009, especially in the state and local education sectors.

Leisure and hospitality is projected to have a gain of 2,700 jobs (1.00%) during the forecast period. Local tourism is forecast to provide some compensation for the reduction in the number of domestic and international travelers.

Natural resources and mining is projected to have slowing job growth as a result of reduced economic expansion in the rest of the world, especially in Asia. RA forecasts an increase of 2,500 jobs (22.00%).

In conclusion, RA's updated forecast projects a greater loss of nonfarm employment (-47,000 jobs, or -1.80%) in 2008-09, compared to its previous forecast released in May (-9,200 jobs, or -0.30%), because of a loss in business and consumer confidence. Higher food and energy prices, falling home values, stagnant incomes, and contracting credit have all combined to erode business and consumer confidence.

MAJOR INITIATIVES

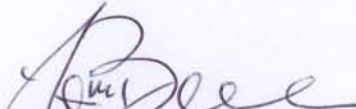
In the Governor's fiscal year (FY) 2008 budget, emphasis was placed on a budget management plan to balance funding through State agency budget saving strategies, utilize capital financing to build new schools, and draw from the State's Budget Stabilization Fund. Faced with adverse economic trends resulting in revenue shortfalls, functions identified as integral to State government were not compromised. For instance, education and programs and services affecting the State's children remained priorities in the FY 2008 budget and were only minimally impacted by budget cutbacks. Balancing service delivery with the need to resolve the State's budget difficulties will continue to be a priority issue.

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, 2007. This was the fourth 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.



William Bell
Director



D. Clark Partridge
State Comptroller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Arizona

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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

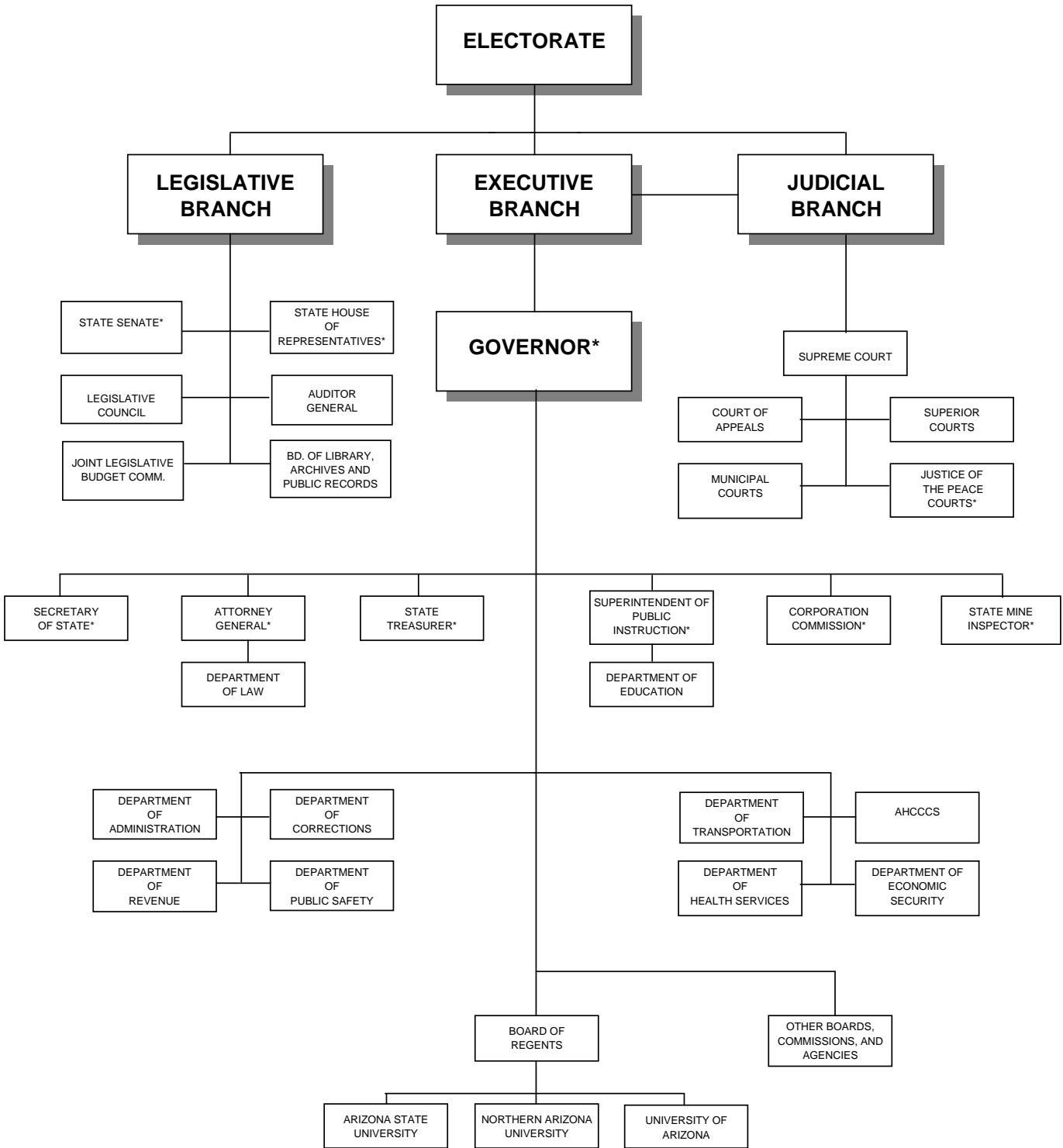


President

Executive Director

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ARIZONA STATE GOVERNMENT ORGANIZATION



* ELECTED OFFICIALS

STATE OF ARIZONA
PRINCIPAL STATE OFFICIALS
JUNE 30, 2008

ELECTED OFFICIALS – as of June 30, 2008

Janet Napolitano, Governor
Senator Timothy S. Bee, President of the Senate
Representative James P. Weiers, Speaker of the House
Janice K. Brewer, Secretary of State
Terry Goddard, Attorney General
Joe Hart, State Mine Inspector
Dean Martin, State Treasurer

Tom Horne, Superintendent of Public Instruction
Mike Gleason, Chairman – Corporation Commission
William A. Mundell, Commissioner – Corporation Commission
Kristin K. Mayes, Commissioner – Corporation Commission
Jeff Hatch-Miller, Commissioner – Corporation Commission
Gary Pierce, Commissioner – Corporation Commission

APPOINTED OFFICIALS – as of June 30, 2008

Executive Officials

William Bell, Director – Department of Administration
Dora B. Schriro, Director – Department of Corrections
Tracy L. Wareing, Director – Department of Economic Security
Gale Garriott, Director – Department of Revenue
Roger Vanderpool, Director – Department of Public Safety
Susan Gerard, Director – Department of Health Services
Anthony D. Rodgers, Director – Arizona Health Care Cost Containment System
Victor Mendez, Director – Department of Transportation

Judicial Officials

Ruth V. McGregor, Chief Justice – Supreme Court

Legislative Officials

Michael E. Braun, Executive Director – Legislative Council
Richard Stavneak, Director – Joint Legislative Budget
Debra K. Davenport, CPA, Auditor General – Office of the Auditor General
GladysAnn Wells, Director – Arizona State Library, Archives and Public Records

University Officials

Michael M. Crow, President – Arizona State University
Dr. John D. Haeger, President – Northern Arizona University
Robert Shelton, President – University of Arizona

ELECTED OFFICIALS – as of May 26, 2009

Janice K. Brewer, Governor
Senator Robert Burns, President of the Senate
Representative Kirk Adams, Speaker of the House
Ken Bennett, Secretary of State
Terry Goddard, Attorney General
Joe Hart, State Mine Inspector
Dean Martin, State Treasurer

Tom Horne, Superintendent of Public Instruction
Kristin K. Mayes, Chairman – Corporation Commission
Paul Newman, Commissioner – Corporation Commission
Gary Pierce, Commissioner – Corporation Commission
Sandra D. Kennedy, Commissioner – Corporation Commission
Bob Stump, Commissioner – Corporation Commission

APPOINTED OFFICIALS – as of May 26, 2009

Executive Officials

William Bell, Director – Department of Administration
Charles Ryan, Interim Director – Department of Corrections
Neal Young, Director – Department of Economic Security
Gale Garriott, Director – Department of Revenue
Roger Vanderpool, Director – Department of Public Safety
Will Humble, Interim Director – Department of Health Services
Anthony D. Rodgers, Director – Arizona Health Care Cost Containment System
John Halikowski, Director – Department of Transportation

Judicial Officials

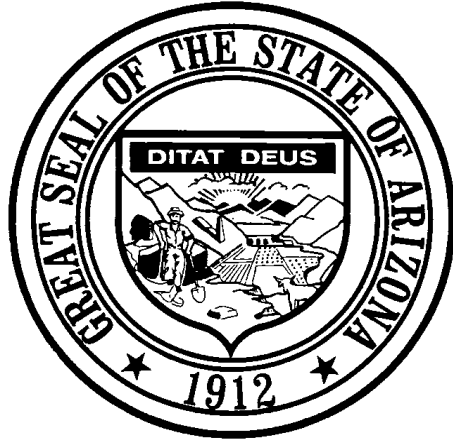
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GladysAnn Wells, Director – Arizona State Library, Archives and Public Records

University Officials

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Dr. John D. Haeger, President – Northern Arizona University
Robert Shelton, President – University of Arizona



FINANCIAL SECTION

INDEPENDENT
AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Janice K. Brewer, Governor
State of Arizona

The Honorable Bob Burns, President
Arizona State Senate

The Honorable Kirk Adams, Speaker
Arizona House of Representatives

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments and the component units, which represent the following percentages of the assets and revenues, additions, and other financing sources, as applicable, of the opinion units affected:

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
<u>Government-wide Statements</u>		
Governmental activities:		
Arizona Health Care Cost Containment System	2.60%	17.32%
Department of Transportation	65.65%	13.08%
Business-type activities:		
Lottery Department	1.23%	11.15%
Arizona Health Care Cost Containment System	.23%	1.99%
Department of Transportation	2.42%	.35%
Aggregate discretely presented component units:		
Component Units	100.00%	100.00%
Universities—Affiliated Component Units	100.00%	100.00%

Opinion Unit/Department	Assets	Revenues/Additions/ Other Financing Sources
<u>Fund Statements</u>		
General Fund:		
Arizona Health Care Cost Containment System	29.00%	20.33%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund: Department of Transportation	100.00%	100.00%
Lottery Fund:		
Lottery Department	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Health Care Cost Containment System	.08%	4.61%
Department of Transportation	1.51%	18.29%
Arizona State Retirement System	63.28%	(3.13)%
Public Safety Personnel Retirement System	11.80%	(1.53)%
Corrections Officer Retirement Plan	2.72%	3.68%
Elected Officials' Retirement Plan	.77%	(.11)%

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

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements of the Healthcare Group of Arizona, a nonmajor enterprise fund, are included as part of the State's business-type activities and aggregate remaining fund information. As discussed in Note 10, the Healthcare Group of Arizona has incurred significant recurring operating losses and has a fund deficit of \$15.797 million at June 30, 2008, that raise substantial doubt about its ability to continue operations. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 1, the State implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent changes in accounting principles. In addition, as described in Note 9, the State reclassified the Greater Arizona Development Authority from a special revenue fund to a discretely presented component unit. This constitutes a change in reporting entity.

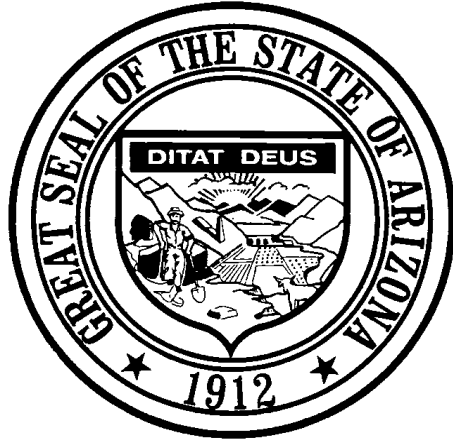
The Management's Discussion and Analysis on pages 21 through 33, the Budgetary Comparison Schedules on pages 133 through 158, the Infrastructure Assets information on pages 159 through 163, and the Schedule of Agent Retirement Plans' Funding Progress on page 164 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Debbie Davenport
Auditor General

May 26, 2009



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, 2008. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

FINANCIAL HIGHLIGHTS

Government-wide:

- The assets of the State exceeded liabilities at the close of the fiscal year by \$21.6 billion (reported as *net assets*). Of this amount, a deficit of \$916.892 million exists for *unrestricted net assets*, \$6.6 billion is restricted for specific purposes (*restricted net assets*), and \$15.9 billion is invested in capital assets, net of related debt.
- The State's total net assets decreased in fiscal year 2008 by \$336.201 million. Net assets of governmental activities decreased by \$435.877 million, while net assets of the business-type activities increased by \$99.676 million.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$5.5 billion, a decrease of \$776.048 million from the beginning of the year. Approximately 19% of the combined fund balances, or \$1.0 billion, is available to meet the State's current and future needs (*unreserved fund balance*).
- As of the close of the fiscal year, unreserved fund balance for the General Fund was \$108.914 million, or less than 1%, of total General Fund expenditures.
- The Land Endowments Fund reported fund balance at year end of \$2.5 billion, an increase of \$89.667 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 assets at year end of \$3.2 billion, an increase of \$94.494 million during the year.

Long-term Debt:

- The State's total long-term primary government debt increased during the fiscal year to \$6.7 billion, an increase of \$683.706 million (more than 11%). Changes during the year included the addition of revenue bonds, grant anticipation notes, and certificates of participation of \$850.400 million, \$68.000 million, and \$239.176 million, respectively. Also, the State retired \$386.480 million of revenue bonds, \$52.580 million of grant anticipation notes, and \$94.685 million of certificates of participation.

More detailed information regarding the government-wide financial statements, fund level financial statements, and long-term debt activity can be found beginning on **page 24**.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Government-wide statements report three activities:

- *Governmental Activities* – Most of the State’s basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within the governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, the State’s unemployment compensation services, Industrial Commission rehabilitation services, and the State’s three universities are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the State are financially accountable. The Greater Arizona Development Authority, the University Medical Center, the Arizona Power Authority, and the Water Infrastructure Finance Authority are discretely presented component units reported by the State. Based on GASB Statement No. 39, the State has added University Foundations and financing authorities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles as adopted by the Financial Accounting Standards Board. These organizations include the ASU Foundation, Arizona Capital Facilities Finance Corporation, the U of A Foundation, and other non-major foundations and financing authorities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by GASB, and include a statement of financial position (**page 40**) and a statement of activities (**page 44**). See **pages 69-72 and 117-129** 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 168** begins the individual fund data for the non-major funds. The State’s funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

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

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

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

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

- *Fiduciary funds* – The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on **page 60**. These funds 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 60-61 of this report.

Notes to the Financial Statements

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

The notes can be found beginning on page 69 of this report.

Required Supplementary Information

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

Required supplementary information begins on page 133 of this report.

Other Supplementary Information

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

Other supplementary information begins on page 168 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

State of Arizona-Primary Government
Net Assets as of June 30, 2008 and 2007
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2007, as		2007, as		2007, as	
	2008	restated	2008	restated	2008	restated
Current assets	\$ 3,980,247	\$ 4,733,190	\$ 1,897,597	\$ 1,979,651	\$ 5,877,844	\$ 6,712,841
Capital assets	16,801,737	15,812,417	3,321,857	3,100,360	20,123,594	18,912,777
Other non-current assets	5,269,246	4,773,723	973,408	1,065,324	6,242,654	5,839,047
Total Assets	26,051,230	25,319,330	6,192,862	6,145,335	32,244,092	31,464,665
Current liabilities	2,745,864	2,287,944	611,537	637,782	3,357,401	2,925,726
Non-current liabilities	4,892,380	4,182,523	2,424,104	2,450,008	7,316,484	6,632,531
Total Liabilities	7,638,244	6,470,467	3,035,641	3,087,790	10,673,885	9,558,257
Net assets:						
Invested in capital assets, net of related debt	14,530,867	13,500,218	1,387,655	1,186,177	15,918,522	14,686,395
Restricted net assets	4,987,365	4,734,039	1,581,212	1,575,991	6,568,577	6,310,030
Unrestricted net assets	(1,105,246)	614,606	188,354	295,377	(916,892)	909,983
Total Net Assets	\$ 18,412,986	\$ 18,848,863	\$ 3,157,221	\$ 3,057,545	\$ 21,570,207	\$ 21,906,408

The largest portion of the State's net assets (74%) represents *capital assets, net of related debt* of \$15.9 billion. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The State's net assets also include \$6.6 billion (30%) of resources that are subject to external restrictions on how they may be used. The largest restrictions are by the State's Constitution for basic education funded by the earnings of the Land Endowments Fund and by federal regulations for unemployment insurance premiums from employers for funding the Unemployment Compensation Fund. Another major restriction is unspent debt instrument proceeds primarily for the acquisition and construction of federal, state, and local highways.

After accounting for the above net asset restrictions, the State has a remaining negative balance of \$916.892 million (4%) reported as *unrestricted net assets*.

The State's net assets decreased \$336.201 million, after beginning net asset restatements, during the current fiscal year. This decrease was primarily caused by decreases in revenues for sales taxes, income taxes, and trust land sales, while expenses increased for most functions. Refer to Note 9 on page 109 for explanations of Governmental and Business-type Activities restatements.

State of Arizona-Primary Government
Changes in Net Assets for Fiscal Years Ended June 30, 2008 and 2007
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2008	2007, as restated	2008	2007, as restated	2008	2007, as restated
Revenues:						
Program revenues:						
Charges for services	\$ 818,567	\$ 798,332	\$ 2,125,875	\$ 2,050,461	\$ 2,944,442	\$ 2,848,793
Operating grants and contributions	9,190,910	8,536,030	898,441	883,373	10,089,351	9,419,403
Capital grants and contributions	523,898	354,255	38,029	27,981	561,927	382,236
General revenues:						
Sales taxes	6,270,419	6,537,584	72,945	79,223	6,343,364	6,616,807
Income taxes	4,205,426	4,636,447	-	-	4,205,426	4,636,447
Tobacco taxes	413,333	358,205	-	-	413,333	358,205
Property taxes	36,732	43,736	-	-	36,732	43,736
Motor vehicle and fuel taxes	1,800,920	1,826,893	-	-	1,800,920	1,826,893
Other taxes	559,440	529,629	-	-	559,440	529,629
Unrestricted investment earnings	243,160	243,328	39,763	103,362	282,923	346,690
Unrestricted grants and contributions	13,574	11,711	-	-	13,574	11,711
Gain on sale of trust land	196,953	451,501	-	-	196,953	451,501
Miscellaneous revenue	214,751	212,253	64,564	77,841	279,315	290,094
Total Revenues	24,488,083	24,539,904	3,239,617	3,222,241	27,727,700	27,762,145
Expenses:						
General government	982,382	802,659	-	-	982,382	802,659
Health and welfare	10,884,297	9,789,699	-	-	10,884,297	9,789,699
Inspection and regulation	185,996	175,609	-	-	185,996	175,609
Education	6,242,173	5,984,196	-	-	6,242,173	5,984,196
Protection and safety	1,510,615	1,401,513	-	-	1,510,615	1,401,513
Transportation	670,173	583,304	-	-	670,173	583,304
Natural resources	250,258	193,862	-	-	250,258	193,862
Intergovernmental revenue sharing	3,023,836	2,864,543	-	-	3,023,836	2,864,543
Interest on long-term debt	179,795	191,674	-	-	179,795	191,674
Universities	-	-	3,227,481	2,960,790	3,227,481	2,960,790
Unemployment Compensation	-	-	356,333	248,111	356,333	248,111
Industrial Commission Special Fund	-	-	14,824	23,669	14,824	23,669
Lottery	-	-	372,740	363,508	372,740	363,508
Other business-type activities	-	-	162,300	176,486	162,300	176,486
Total Expenses	23,929,525	21,987,059	4,133,678	3,772,564	28,063,203	25,759,623
Excess (deficiency) before contributions, special items, extraordinary items, and transfers	558,558	2,552,845	(894,061)	(550,323)	(335,503)	2,002,522
Contributions to permanent endowments	-	-	3,927	4,815	3,927	4,815
Special item:						
Asset impairment of donated historical treasures	-	-	(20,100)	-	(20,100)	-
Extraordinary item:						
Insurance recovery, net of impairment loss	-	-	15,475	-	15,475	-
Transfers	(994,435)	(876,456)	994,435	876,456	-	-
Change in Net Assets	(435,877)	1,676,389	99,676	330,948	(336,201)	2,007,337
Net Assets - July 1, as restated	18,848,863	17,172,474	3,057,545	2,726,597	21,906,408	19,899,071
Net Assets - June 30	\$ 18,412,986	\$ 18,848,863	\$ 3,157,221	\$ 3,057,545	\$ 21,570,207	\$ 21,906,408

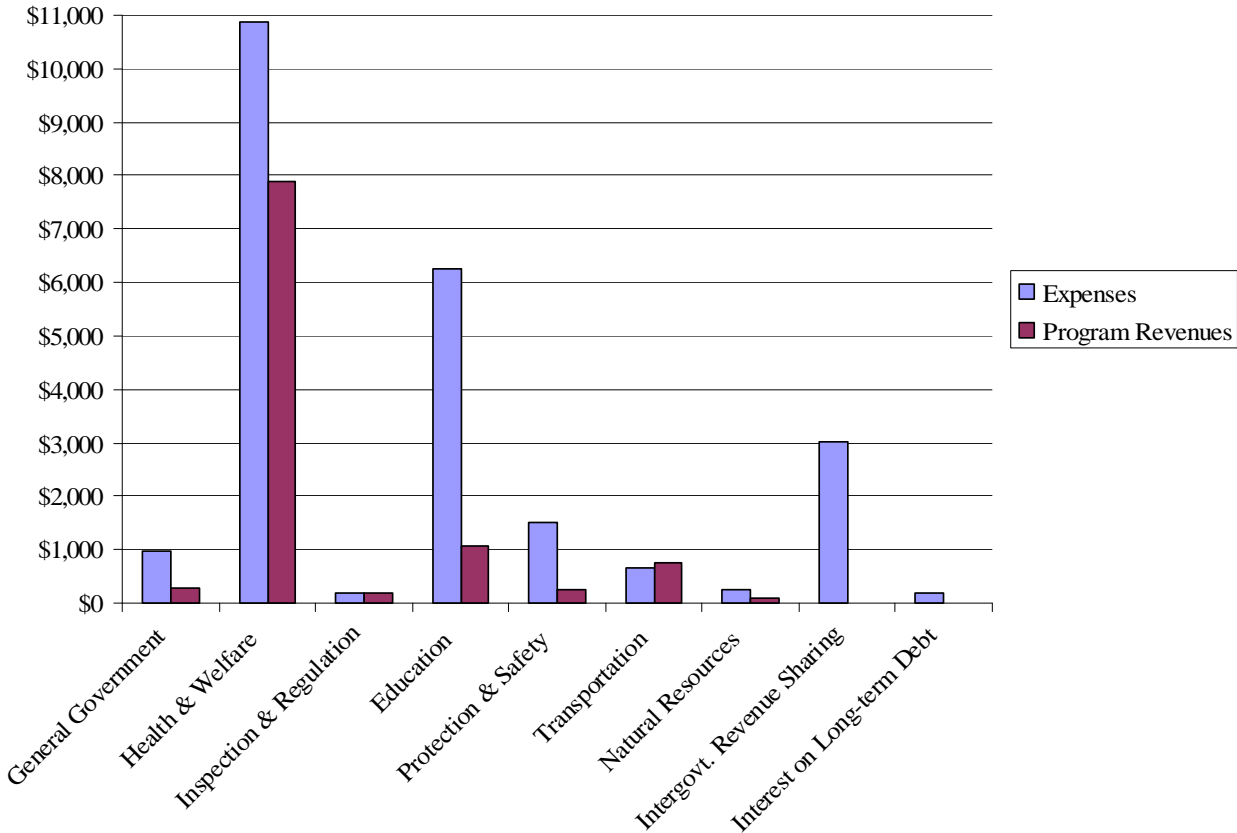
Change in Net Assets

Governmental Activities – Net assets decreased by \$435.877 million, or 2%. This decrease was primarily attributed to decreases in earned general tax revenues, coupled with increases in the costs of services for the State’s governmental activities. Reported income tax and sales tax revenues decreased by \$431.021 million, or 9%, and \$267.165 million, or 4%, as compared to fiscal year 2007, respectively. Several key elements of the economy have led to this decrease. Higher food and energy prices, falling home values, stagnant incomes, and contracting credit have combined to erode business and consumer confidence. Arizona’s unemployment rate increased from 3.7% in July of 2007 to 5.5% in June of 2008. In addition, tax law reductions took effect in fiscal year 2008 that resulted in a 5% reduction in individual income tax rates and implementation of a new corporate income tax enhanced sales factor. Another significant contributor to the net asset decrease was auction sales of only 1,994 acres in State trust land, with gross sales of \$125.997 million. This was a decrease of \$327.658 million, or 72%, as compared to fiscal year 2007. Land sales were impacted substantially by the housing market slow-down and repercussions in the credit industry.

A comparison of the net cost (income) of services by function for the State’s governmental activities is shown below for fiscal years 2008 and 2007. 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	
	2008	2007	2008	2007
Functions/Programs:				
General government	\$ 982,382	\$ 802,659	\$ 698,543	\$ 497,769
Health and welfare	10,884,297	9,789,699	3,001,882	2,809,369
Inspection and regulation	185,996	175,609	8,825	(2,167)
Education	6,242,173	5,984,196	5,179,662	4,698,423
Protection and safety	1,510,615	1,401,513	1,245,745	1,154,915
Transportation	670,173	583,304	(82,861)	382
Natural resources	250,258	193,862	140,723	83,534
Intergovernmental revenue sharing	3,023,836	2,864,543	3,023,836	2,864,543
Interest on long-term debt	179,795	191,674	179,795	191,674
Total Governmental Activities	<u>\$ 23,929,525</u>	<u>\$ 21,987,059</u>	<u>\$ 13,396,150</u>	<u>\$ 12,298,442</u>

**Expenses and Program Revenues
Governmental Activities for Fiscal Year 2008
(in millions of dollars)**



Business-type Activities – The net assets increased by \$99.676 million, or 3%. This increase was primarily caused by the net increase in the Universities Fund of \$77.266 million. Net student tuition and fees increased due to increased tuition rates and enrollment. Also, transfers-in increased due to an increase in State appropriations related to funding for enrollment growth, faculty retention and pay increases, and increased health insurance costs. Increased revenues were offset by increases in salaries, wages, and benefits paid to University employees as well as decreased endowment earnings on investments, resulting from the overall declining investment markets.

A comparison of the net cost (income) of services by function for the State’s business-type activities is shown on the next page for fiscal years 2008 and 2007. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State’s taxpayers by each of these functions.

Business-type Activities
(expressed in thousands)

	Total Cost of Services		Net Cost (Income) of Services	
	2008	2007	2008	2007
Functions/Programs:				
Universities	\$ 3,227,481	\$ 2,960,790	\$ 1,178,885	\$ 1,031,059
Unemployment Compensation	356,333	248,111	(741)	(127,137)
Industrial Commission				
Special Fund	14,824	23,669	(10,623)	(19,072)
Lottery	372,740	363,508	(100,197)	(98,692)
Other	162,300	176,486	4,009	24,591
Total Business-type Activities	<u>\$ 4,133,678</u>	<u>\$ 3,772,564</u>	<u>\$ 1,071,333</u>	<u>\$ 810,749</u>

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

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

General Fund

The General Fund is the chief operating fund of the State. At June 30, 2008, unreserved fund balance of the General Fund was \$108.914 million, while total fund balance closed the year at \$361.622 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and other financing uses. Unreserved fund balance represents less than 1% of total expenditures and other financing uses, while total fund balance represents 2% of the same amount.

The fund balance of the State's General Fund decreased \$1.6 billion during the fiscal year. The primary source of the decrease in fund balance is that expenditures increased by \$1.8 billion, while revenues only increased by \$299.053 million. Although intergovernmental revenues increased \$998.636 million from the prior fiscal year, sales tax revenues decreased \$216.957 million (4%) and income tax revenues decreased \$454.320 million (10%). In particular, sales taxes paid by retail stores and construction contractors decreased by 4% and 10%, respectively, when compared to fiscal year 2007 sales tax receipts. In addition, tax law reductions took effect in fiscal year 2008 that resulted in a 5% reduction in individual income tax rates and implementation of a new corporate income tax enhanced sales factor.

Health and welfare expenditures and intergovernmental revenue (including federal grants and county funding) increased by \$1.2 billion, or 13%, and \$998.636 million, or 13%, as compared to fiscal year 2007, respectively. The increase in expenditures in fiscal year 2008 can be attributable to increased enrollment in the Arizona Health Care Cost Containment System's (AHCCCS) programs and associated provider reimbursement inflation. Overall program enrollment in the various AHCCCS programs increased 5.1%, primarily due to growth in the Social Security Act Title XIX Waiver Group childless adults, Title XIX families and children, and long term care program populations. Utilization and inflationary trends for healthcare costs are incorporated into a rate development process for the managed care organization capitation rates. The capitation rates were increased by a weighted average of 6.7% for the contract period of October 2007 to September 2008, primarily due to transportation costs, dental rates, cesarean births, rural healthcare costs due to physician and specialty shortages, and new and more expensive health care technologies.

Education expenditures increased \$310.059 million, or 6%, compared to fiscal year 2007. The increase can be primarily attributed to an increase in State assistance for kindergarten through twelfth grade (K-12) operating expenditures largely to support an increase of 26,756 student enrollments and a 2.0% inflation adjustment. Furthermore, the fiscal year 2008

budget provided for an additional \$80.000 million in a new Kindergarten “Group B” Weight funding for the second year of a two year phase-in. Additionally, programs supported by federal grant aid increased by approximately \$27.261 million during fiscal year 2008.

Transportation and Aviation Planning, Highway Maintenance and Safety Fund

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance decreased \$24.341 million during fiscal year 2008. The fund balance decrease was due, in part, to the transfer of \$26.705 million to the General Fund due to 2008 House Bill 2620, Chapter 53, which required the transfer in order to help the State balance the General Fund during Fiscal Year 2008.

Land Endowments Fund

The fund was established when the federal government granted Arizona statehood. Both the State’s Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. The Land Endowments Fund total fund balance increased \$89.667 million during fiscal year 2008. Endowment investments increased \$78.415 million, at fiscal year end, due to receipts from land sales of \$249.970 million and a net decrease in the fair value of investments of \$117.736 million.

Proprietary funds

The business-type activities discussion for the fund level financial statements of the State’s enterprise funds provide the same type of information found in the government-wide financial statements analysis on **page 27**.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budgetary Comparison Schedules for the major governmental funds are in the Required Supplementary Information section beginning on **page 133**. Differences between the original budget of \$16.7 billion and the final amended budget of \$17.0 billion resulted in a \$281.720 million net increase in appropriations for the General Fund, before adjustments. Some of the primary reasons for the General Fund appropriations net increase were:

1. \$314.812 million of prior fiscal year obligations that were paid in the current fiscal year per ARS §35-191
2. \$272.000 million decrease for the deferral of the Department of Education’s Basic State Aid and Additional State Aid payments to school districts
3. \$79.910 million to AHCCCS primarily for Acute Proposition 204 and Acute Base Special Line Items
4. \$37.052 million to the Department of Corrections primarily for increased correctional officers’ salaries and employee related expenses
5. \$25.000 million to the Arizona 21st Century Competitive Initiative Fund, which was further appropriated in the amount of \$25.000 million from this fund to the Department of Commerce for the purpose of strengthening medical, scientific, and engineering research programs and infrastructure to promote statewide economic development
6. \$20.000 million for the Parks Board “Growing Smarter” transfer to the Land Conservation Fund per ARS §41-511.23 to provide grants to purchase State trust land for conservation purposes
7. \$34.625 million to the Universities Fund to make debt service payments associated with the financing of research infrastructure projects

The difference between the final budget and actual expenditures was \$607.434 million, after adjustments. Of this amount, \$103.320 million will continue as legislative multiple fiscal year spending authority for fiscal years 2009 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining \$504.114 million represents the unused portion of the State's legislatively authorized annual operating budget.

Additional budgetary information can be found on pages 156-158 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, 2008 totaled \$20.1 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 6%, with a 6% increase in capital assets used for governmental activities and a 7% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled \$317.577 million.

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

- The Universities' additions to capital assets totaled \$502.090 million and included increased investments in instruction, research, student housing, conference center, athletic, and campus police facilities and equipment.
- The ADOT started or completed roads and bridges totaling \$1.4 billion during the fiscal year.

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

Capital assets for the governmental and business-type activities as of June 30, 2008 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007, as restated	2008	2007, as restated
Land	\$ 2,513,888	\$ 2,368,725	\$ 166,613	\$ 153,038	\$ 2,680,501	\$ 2,521,763
Buildings	1,709,900	1,677,197	3,713,932	3,437,270	5,423,832	5,114,467
Improvements other than buildings	136,246	138,329	4,811	3,600	141,057	141,929
Equipment	772,238	732,690	1,282,525	1,209,996	2,054,763	1,942,686
Collections (non-depreciable)	-	-	15,853	35,311	15,853	35,311
Infrastructure	10,108,526	9,861,750	346,268	326,380	10,454,794	10,188,130
Construction in progress	2,719,856	2,121,158	125,230	100,373	2,845,086	2,221,531
Less accumulated depreciation	(1,158,917)	(1,087,432)	(2,333,375)	(2,165,608)	(3,492,292)	(3,253,040)
Total	<u>\$ 16,801,737</u>	<u>\$ 15,812,417</u>	<u>\$ 3,321,857</u>	<u>\$ 3,100,360</u>	<u>\$ 20,123,594</u>	<u>\$ 18,912,777</u>

As provided by GASB Statement 34, the State has elected to record its infrastructure assets, that the ADOT is responsible for maintaining, using the modified approach. Assets accounted for under the modified approach include 6,785 center lane miles (18,546 travel lane miles) and 4,637 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 3.91 was achieved for fiscal year 2008.

The State manages its bridges using the Arizona Bridge Information and Storage System. The State determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria.

It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2008, a CRI of 93.4% was obtained.

In addition to many smaller projects, each of the following major highway construction projects in excess of \$20.000 million were started during fiscal year 2008 (expressed in thousands):

<u>Project Description</u>	<u>Contract Start Date</u>	<u>Contract Amount</u>	<u>Current Year Expenditures</u>
Major median widening on Interstate 10 from Sarival to State Route Loop 101 in Maricopa County.	12/24/07	\$ 80,600	\$ 15,235
Major widening of Interstate 17 from Jomax Road to Carefree Highway at State Route 74 in Maricopa County.	01/23/08	74,382	10,775
Major widening of Interstate 17 from State Route Loop 101 to Jomax Road in Maricopa County.	12/24/07	67,864	14,408
Construction of HOV lanes on State Route Loop 101 from Princess Drive to State Route Loop 202 (Red Mountain) in Maricopa County.	07/24/07	47,467	16,575
Major widening of Interstate 10 from the Picacho Peak traffic interchange to the Pinal Air Park in Pinal County North of Tucson.	09/24/07	44,122	11,534
Construction of new roads at State Route 179 at the north forest boundary to the city of Sedona in Coconino County.	10/22/07	39,921	9,567
Major widening of State Route Loop 101 from State Route Loop 202 (Red Mountain) to State Route Loop 202 (Santan) in Maricopa County.	06/23/08	31,241	-
Construction of a 3-way roadway and bridge approach on US 191 south of Clifton in Greenlee County.	08/20/07	27,709	15,539
Construction of new roadway on US 93 at the Wickenburg bypass in Maricopa County.	11/19/07	26,971	7,078
Construction of 64 th Street traffic interchange on State Route Loop 101 in Maricopa County.	09/24/07	23,643	19,366
Capacity additions at the intersections of State Route 89 and State Route 69 in Yavapai County.	10/22/07	23,590	8,240

In addition to many smaller projects, the following major highway construction projects had expenditures in excess of \$20.000 million in fiscal year 2008 (expressed in thousands):

<u>Project Description</u>	<u>Project Expenditures</u>
Interstate 10 from Price Road to 29 th Street within the City of Tucson in Pima County.	\$ 80,226
State Route Loop 202 (Red Mountain) from Power Road to University Drive within the City of Mesa in Maricopa County.	71,500
State Route Loop 101 (Agua Fria) and Interstate 17 interchange in Maricopa County.	39,308
US 60 roadway widening from Apache Junction to Globe in Pinal County.	38,737
State Route Loop 303 from Happy Valley Road to Interstate 17, north of Surprise in Maricopa County.	34,906
Interstate 17 Jomax Road and Dixiletta Drive interchanges in Maricopa County.	34,462
State Route 179 south of Sedona in Coconino and Yavapai Counties.	32,047
State Route 51 from Shea Boulevard to State Route Loop 101 (Pima) in Maricopa County.	28,446
Interstate 17 from Jomax Road to Carefree Highway in Maricopa County.	28,326
Interstate 10 from the Marana interchange to the Cortaro Road interchange in Pima County.	20,443
State Route Loop 101 (Pima) in the City of Phoenix in Maricopa County.	20,233

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

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

Long-term debt:

The State issues no general obligation debt instruments. The Arizona Constitution, under Article 9, Section 5, provides that the State may contract debts not to exceed \$350 thousand. This provision has been interpreted to restrict the State from pledging its credit as a sole payment for debts incurred for the operation of the State government. As a result, the

State pledges either dedicated revenue streams or the constructed building or equipment acquired as security for the repayment of long-term debt instruments.

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

- The ADOT issued revenue bonds totaling \$563.950 million to finance the costs of right-of-way purchase, design, and construction of federal, state, and local highways and to pay the costs of issuing the bonds.
- The School Facilities Board issued \$82.880 million of revenue refunding bonds, and used the remaining Series 2004A debt service reserve funds of \$12.304 million to advance refund \$88.630 million of previously issued Series 2004A revenue bonds with a total outstanding principal balance prior to the refunding of \$190.970 million.
- The Universities issued revenue and revenue refunding bonds totaling \$203.570 million to fund the acquisition, construction, or renovation of capital facilities and infrastructure. Furthermore, proceeds were used to refund previously issued revenue bonds with a total outstanding balance of \$120.970 million.
- The ADOT issued \$68.000 million of grant anticipation notes to pay a portion of the costs of certain controlled-access highways in Maricopa County and to pay the costs of issuance.
- The Department of Administration issued \$238.990 million of certificates of participation to finance the following: (i) an approximately 4,000 bed prison expansion within the State, (ii) wastewater and water renovations and improvements at prisons throughout the State, and (iii) a new forensic unit and additional infrastructure improvements at the Arizona State Hospital.

State of Arizona-Primary Government
Outstanding Major Long-Term Debt as of June 30, 2008
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue bonds	\$ 2,759,070	\$ 2,328,840	\$ 902,255	\$ 868,565	\$ 3,661,325	\$ 3,197,405
Grant anticipation notes	298,280	282,860	-	-	298,280	282,860
Certificates of participation	1,135,640	959,865	903,843	935,127	2,039,483	1,894,992
Total	<u>\$ 4,192,990</u>	<u>\$ 3,571,565</u>	<u>\$ 1,806,098</u>	<u>\$ 1,803,692</u>	<u>\$ 5,999,088</u>	<u>\$ 5,375,257</u>

More detailed information regarding long-term debt begins on page 96.

ECONOMIC CONDITION AND OUTLOOK

Arizona's economy, along with the rest of the nation, began to contract in fiscal year 2008, as problems in the financial and housing markets began to develop, along with a resulting decline in labor markets. As previously mentioned, higher food and energy prices, falling home values, stagnant incomes, and contracting credit have combined to erode business and consumer confidence. Consequently, Arizona's unemployment rate increased from 3.7% in July of 2007 to 5.5% in June of 2008.

Arizona's economy is projected to continue losing jobs in calendar years 2008 and 2009. The Arizona Department of Commerce, Research Administration (RA), forecasts a loss of 47,000 jobs (-1.8%) for the calendar year 2008-2009 forecast period. In addition, RA expects an Arizona recovery will be delayed until late 2009 and early 2010 because of higher commodity prices, especially for food and energy, stagnant incomes and the effects of the crisis in finance and housing.

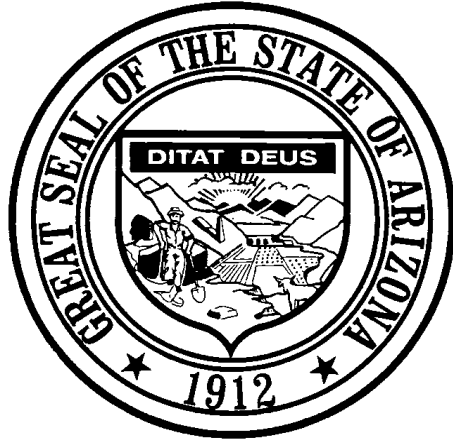
Further deterioration in Arizona's economic conditions during fiscal year 2009 has resulted in a continued downward trend in the State of Arizona's General Fund tax revenue collections. For the first nine months of fiscal year 2009, the State's sales tax and income tax revenues declined \$405.000 million and \$436.750 million, or 12.2% and 15.4% below the same nine month period during the previous fiscal year, respectively. To address the General Fund fiscal year 2009

budget impact created by these revenue shortfalls, the Legislature enacted laws that included measures such as the reduction in State agencies General Fund spending authority, transfer of amounts from other funds, draw of the remaining amount in the Budget Stabilization Fund, and temporary suspension of cash payments to K-12. Additionally, the State plans to use \$250.000 million in federal stimulus funds through The American Recovery and Reinvestment Act of 2009 as part of the measures to balance the fiscal year 2009 budget. Further, the decline in tax revenues has created problems in the management of the State's cash flow needs. As a result, on April 15, 2009 through April 27, 2009, and May 13, 2009 through May 26, 2009, the State Treasurer issued Treasurer's Warrant Notes in lieu of immediate redemption of warrants presented to the State Treasurer for payment of authorized General Fund expenditures. Budget difficulties are expected to carry into fiscal year 2010 as the State continues to address the impacts of the economic downturn.

CONTACTING THE STATE COMPTROLLER'S OFFICE

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

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. Contact information regarding the component units begins on **page 70**.



BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

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STATE OF ARIZONA
STATEMENT OF NET ASSETS
 JUNE 30, 2008
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
			PRIMARY GOVERNMENT		
ASSETS					
Current Assets:					
Cash	\$ 6,354	\$ 193,307	\$ 199,661	\$ -	\$ 10,267
Cash with U.S. Treasury	-	1,032,075	1,032,075	-	-
Cash and pooled investments with State Treasurer	2,257,324	244,690	2,502,014	10,374	195,803
Restricted cash and pooled investments with State Treasurer	-	78,034	78,034	-	-
Cash held by trustee	-	-	-	-	5,240
Collateral investment pool	-	47,810	47,810	-	-
Short-term investments	-	57,166	57,166	-	104,906
Restricted investments held by trustee	-	-	-	-	13,688
Receivables, net of allowances:					
Taxes	591,459	70,676	662,135	-	-
Interest	141,416	3,570	144,986	-	10,406
Loans and notes	44,070	17,346	61,416	-	-
Other	174,182	114,890	289,072	-	96,621
Internal balances	94,412	(94,412)	-	-	-
Due from U.S. Government	620,065	77,914	697,979	-	-
Due from local governments	-	3,100	3,100	-	-
Due from others	18	10,700	10,718	-	-
Inventories, at cost	14,309	30,943	45,252	-	12,702
Other current assets	36,638	9,788	46,426	-	5,380
Total Current Assets	<u>3,980,247</u>	<u>1,897,597</u>	<u>5,877,844</u>	<u>10,374</u>	<u>455,013</u>
Noncurrent Assets:					
Restricted assets:					
Cash	55	18,904	18,959	-	-
Cash and pooled investments with State Treasurer	1,688,015	-	1,688,015	8,800	-
Cash held by trustee	46,368	74,178	120,546	-	-
Investments	2,937	38,018	40,955	-	-
Investments held by trustee	-	37,844	37,844	-	113,409
Receivables, net of allowances:					
Loans and notes	893,151	52,503	945,654	-	897,763
Other	-	9,184	9,184	-	-
Securities held in escheat	21,048	-	21,048	-	-
Investments	-	438,619	438,619	-	97,101
Endowment investments	2,617,672	285,962	2,903,634	-	-
Other noncurrent assets	-	18,196	18,196	-	56,970
Capital assets:					
Infrastructure, land, and other non-depreciable	15,335,152	307,696	15,642,848	-	64,419
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,466,585	3,014,161	4,480,746	-	132,061
Total Noncurrent Assets	<u>22,070,983</u>	<u>4,295,265</u>	<u>26,366,248</u>	<u>8,800</u>	<u>1,361,723</u>
Total Assets	<u>26,051,230</u>	<u>6,192,862</u>	<u>32,244,092</u>	<u>19,174</u>	<u>1,816,736</u>

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

(Continued)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
 JUNE 30, 2008
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
			PRIMARY GOVERNMENT		
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	\$ 580,012	\$ 155,173	\$ 735,185	\$ -	\$ 33,328
Payable for securities purchased	35,412	1,419	36,831	-	-
Accrued liabilities	858,266	83,024	941,290	-	45,496
Obligations under securities loan agreements	-	47,810	47,810	-	-
Due to U.S. Government	6,640	257	6,897	-	-
Due to local governments	545,977	6,855	552,832	-	-
Due to others	143,639	79,704	223,343	-	-
Unearned deferred revenue	90,570	107,751	198,321	-	-
Current portion of accrued insurance losses	52,126	26,639	78,765	-	5,770
Current portion of long-term debt	263,150	88,913	352,063	-	34,910
Current portion of other long-term liabilities	170,072	13,992	184,064	-	6,852
Total Current Liabilities	<u>2,745,864</u>	<u>611,537</u>	<u>3,357,401</u>	<u>-</u>	<u>126,356</u>
Noncurrent Liabilities:					
Unearned deferred revenue	57,195	24,970	82,165	-	2,321
Contracts payable	-	14,877	14,877	-	-
Accrued insurance losses	311,801	355,499	667,300	-	10,340
Funds held for others	-	55,850	55,850	-	-
Long-term debt	4,441,133	1,920,783	6,361,916	-	1,057,670
Other long-term liabilities	82,251	52,125	134,376	-	10,169
Total Noncurrent Liabilities	<u>4,892,380</u>	<u>2,424,104</u>	<u>7,316,484</u>	<u>-</u>	<u>1,080,500</u>
Total Liabilities	<u>7,638,244</u>	<u>3,035,641</u>	<u>10,673,885</u>	<u>-</u>	<u>1,206,856</u>
NET ASSETS					
Invested in capital assets, net of related debt	14,530,867	1,387,655	15,918,522	-	41,789
Restricted for:					
Federal grants	53,212	-	53,212	-	-
Capital projects	970,202	6,207	976,409	-	-
Unemployment Compensation	-	1,072,996	1,072,996	-	-
Debt service	36,496	10,045	46,541	8,800	26,984
Permanent funds and University funds:					
Expendable	69,305	264,466	333,771	-	-
Nonexpendable	3,523,725	153,383	3,677,108	-	-
Loans and other financial assistance:					
Expendable	-	74,115	74,115	-	321,576
Other purposes	334,425	-	334,425	-	-
Unrestricted (deficit)	<u>(1,105,246)</u>	<u>188,354</u>	<u>(916,892)</u>	<u>10,374</u>	<u>219,531</u>
Total Net Assets	<u>\$ 18,412,986</u>	<u>\$ 3,157,221</u>	<u>\$ 21,570,207</u>	<u>\$ 19,174</u>	<u>\$ 609,880</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, 2008
(Expressed in Thousands)

ASSETS

Cash and cash equivalent investments	\$	83,363
Receivables:		
Pledges receivable		204,746
Other receivables		18,571
Total receivables		<u>223,317</u>
Investments:		
Investments in securities		988,716
Investments held in trust for Universities		111,108
Other investments		60,764
Total investments		<u>1,160,588</u>
Net direct financing leases		124,136
Property and equipment, net of accumulated depreciation		365,317
Licenses		5,570
Other assets		47,912
Total Assets		<u>2,010,203</u>

LIABILITIES

Liability under Universities' endowment trust agreements		93,405
Bonds payable		599,089
Unearned revenue		38,661
Other liabilities		95,562
Total Liabilities		<u>826,717</u>

NET ASSETS

Permanently restricted		722,396
Temporarily restricted		404,068
Unrestricted		57,022
Total Net Assets	\$	<u>1,183,486</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, 2008
 (Expressed in Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 982,382	\$ 190,374	\$ 93,465	\$ -
Health and welfare	10,884,297	93,208	7,789,203	4
Inspection and regulation	185,996	159,857	17,314	-
Education	6,242,173	60,693	1,001,818	-
Protection and safety	1,510,615	101,401	163,469	-
Transportation	670,173	149,560	79,746	523,728
Natural resources	250,258	63,474	45,895	166
Intergovernmental revenue sharing	3,023,836	-	-	-
Interest on long-term debt	179,795	-	-	-
Total Governmental Activities	<u>23,929,525</u>	<u>818,567</u>	<u>9,190,910</u>	<u>523,898</u>
Business-type Activities:				
Universities	3,227,481	1,167,696	842,871	38,029
Unemployment Compensation	356,333	302,631	54,443	-
Industrial Commission Special Fund	14,824	25,447	-	-
Lottery	372,740	472,937	-	-
Other	162,300	157,164	1,127	-
Total Business-type Activities	<u>4,133,678</u>	<u>2,125,875</u>	<u>898,441</u>	<u>38,029</u>
Total Primary Government	<u>\$ 28,063,203</u>	<u>\$ 2,944,442</u>	<u>\$ 10,089,351</u>	<u>\$ 561,927</u>
COMPONENT UNITS:				
Governmental Activities:				
Greater Arizona Development Authority	\$ <u>549</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Business-type Activities:				
Water Infrastructure Finance Authority	\$ 30,506	\$ 24,588	\$ 48,063	\$ -
University Medical Center	481,974	498,827	-	17,126
Arizona Power Authority	28,821	28,132	-	-
Total Business-type Activities	<u>\$ 541,301</u>	<u>\$ 551,547</u>	<u>\$ 48,063</u>	<u>\$ 17,126</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				
Miscellaneous				
Contributions to permanent endowments				
Special Item:				
Asset impairment of donated historical treasures				
Extraordinary Item:				
Insurance recovery, net of impairment loss				
Transfers				
Total General Revenues, Contributions, Special Items, Extraordinary Items, and Transfers				
Change in Net Assets				
Net Assets - Beginning, as restated				
Net Assets - Ending				

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			COMPONENT UNITS	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
		PRIMARY GOVERNMENT		
\$ (698,543)		\$ (698,543)		
(3,001,882)		(3,001,882)		
(8,825)		(8,825)		
(5,179,662)		(5,179,662)		
(1,245,745)		(1,245,745)		
82,861		82,861		
(140,723)		(140,723)		
(3,023,836)		(3,023,836)		
(179,795)		(179,795)		
<u>(13,396,150)</u>		<u>(13,396,150)</u>		
	\$ (1,178,885)	(1,178,885)		
	741	741		
	10,623	10,623		
	100,197	100,197		
	(4,009)	(4,009)		
	<u>(1,071,333)</u>	<u>(1,071,333)</u>		
<u>(13,396,150)</u>	<u>(1,071,333)</u>	<u>(14,467,483)</u>		
			<u>\$ (549)</u>	
				\$ 42,145
				33,979
				<u>(689)</u>
				<u>75,435</u>
6,270,419	72,945	6,343,364	-	-
4,205,426	-	4,205,426	-	-
413,333	-	413,333	-	-
36,732	-	36,732	-	-
1,800,920	-	1,800,920	-	-
559,440	-	559,440	-	-
243,160	39,763	282,923	1,023	11,640
13,574	-	13,574	-	-
196,953	-	196,953	-	-
214,751	64,564	279,315	929	4
-	3,927	3,927	-	-
-	(20,100)	(20,100)	-	-
-	15,475	15,475	-	-
<u>(994,435)</u>	<u>994,435</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>12,960,273</u>	<u>1,171,009</u>	<u>14,131,282</u>	<u>1,952</u>	<u>11,644</u>
<u>(435,877)</u>	<u>99,676</u>	<u>(336,201)</u>	<u>1,403</u>	<u>87,079</u>
<u>18,848,863</u>	<u>3,057,545</u>	<u>21,906,408</u>	<u>17,771</u>	<u>522,801</u>
<u>\$ 18,412,986</u>	<u>\$ 3,157,221</u>	<u>\$ 21,570,207</u>	<u>\$ 19,174</u>	<u>\$ 609,880</u>

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions	\$ 13,752	\$ 114,228	\$ 82,835	\$ 210,815
Rental revenue	50,420	-	-	50,420
Sales and services	26,490	114	-	26,604
Net investment income	6,196	(6,498)	(2,427)	(2,729)
Net assets released from restrictions	118,267	(106,260)	(12,007)	-
Capital lease revenue	12,400	-	-	12,400
Licensing revenue	6,335	-	-	6,335
Other revenues	30,810	4,276	325	35,411
Total Revenues	264,670	5,860	68,726	339,256
EXPENSES				
Program services:				
Payments to Universities	95,393	-	-	95,393
Leasing related expenses	7,624	-	-	7,624
Payments on behalf of Universities	22,904	-	-	22,904
Other program services	23,247	-	-	23,247
Personal services, operations, and administrative expenses	56,019	-	-	56,019
Fundraising expenses	9,950	-	-	9,950
Interest	19,387	-	-	19,387
Assets expensed under capital lease agreement	23,990	-	-	23,990
Depreciation and amortization	12,099	-	-	12,099
Other expenses	13,159	-	-	13,159
Total Expenses	283,772	-	-	283,772
Increase (Decrease) in Net Assets	(19,102)	5,860	68,726	55,484
Net Assets - Beginning, as restated	75,990	398,292	653,720	1,128,002
Transfers	134	(84)	(50)	-
Net Assets - Ending	\$ 57,022	\$ 404,068	\$ 722,396	\$ 1,183,486

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

STATE OF ARIZONA
BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2008
 (Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
ASSETS					
Cash	\$ 1,410	\$ -	\$ 28	\$ 3,615	\$ 5,053
Cash and pooled investments with State Treasurer	874,586	93,322	95,663	1,009,788	2,073,359
Receivables, net of allowances:					
Taxes	496,492	69,819	-	25,148	591,459
Interest	10,378	5,435	118,153	7,417	141,383
Loans and notes	-	10,922	926,299	-	937,221
Other	89,631	22,320	21,145	26,508	159,604
Due from U.S. Government	565,625	50,603	-	-	616,228
Due from local governments	-	-	-	-	-
Due from others	-	-	-	18	18
Due from other Funds	146,317	20,000	545	64,455	231,317
Inventories, at cost	3,488	7,132	-	95	10,715
Restricted assets:					
Cash	55	-	-	-	55
Cash and pooled investments with State Treasurer	13,633	904,770	-	769,612	1,688,015
Cash held by trustee	216	-	-	46,152	46,368
Investments	2,937	-	-	-	2,937
Securities held in escheat	21,048	-	-	-	21,048
Endowment investments	-	-	2,617,672	-	2,617,672
Other	152	21,312	-	20	21,484
Total Assets	\$ 2,225,968	\$ 1,205,635	\$ 3,779,505	\$ 1,952,828	\$ 9,163,936
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ 264,267	\$ 125,984	\$ 66,872	\$ 37,341	\$ 494,464
Payable for securities purchased	-	-	35,412	-	35,412
Accrued liabilities	436,745	19,721	208	56,896	513,570
Due to U.S. Government	6,640	-	-	-	6,640
Due to local governments	375,470	139,514	-	30,993	545,977
Due to others	143,580	-	1	58	143,639
Due to other Funds	47,652	100,267	12,292	13,945	174,156
Unavailable deferred revenue	514,770	10,922	1,048,306	999	1,574,997
Unearned deferred revenue	75,222	-	71,690	853	147,765
Matured notes payable	-	3,310	-	-	3,310
Total Liabilities	1,864,346	399,718	1,234,781	141,085	3,639,930
Fund Balances:					
Reserved for:					
Budget stabilization fund	147,212	-	-	-	147,212
Highway construction	-	696,382	-	556,820	1,253,202
Other construction	-	-	-	238,985	238,985
School facilities improvements	1,914	-	-	-	1,914
Permanent funds	-	-	2,544,365	-	2,544,365
Continuing appropriations	103,320	97,100	359	46,326	247,105
Debt service	-	-	-	35,236	35,236
Other fund balance reservations	262	27,132	-	-	27,394
Unreserved	108,914	(14,697)	-	-	94,217
Unreserved reported in:					
Non-major special revenue funds	-	-	-	934,376	934,376
Total Fund Balances	361,622	805,917	2,544,724	1,811,743	5,524,006
Total Liabilities and Fund Balances	\$ 2,225,968	\$ 1,205,635	\$ 3,779,505	\$ 1,952,828	\$ 9,163,936

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

STATE OF ARIZONA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 JUNE 30, 2008
 (Expressed in Thousands)

Total fund balances - governmental funds \$ 5,524,006

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 16,724,651

Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. 1,574,997

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. (255,600)

The allocation of the internal service fund accumulated net loss results in an amount due from business-type activities, which is not reported in the governmental funds. 36,725

Deferred issue costs are reported as current expenditures in the governmental funds. However, deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets. 10,713

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

Revenue bonds	(2,759,070)	
Grant anticipation notes	(298,280)	
Certificates of participation	(1,135,640)	
Capital leases	(243,997)	
Installment purchase contracts	(8,908)	
Notes payable	(19,528)	
Premium on debt	(242,816)	
Deferred amount on refundings	13,145	(4,695,094)

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. (327,854)

Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. (15,882)

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

Compensated absences (165,695)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. Those assets consist of:

Other noncurrent assets 2,019

Net assets of governmental activities \$ 18,412,986

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, 2008
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				
	GENERAL	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
	FUND		FUND	FUNDS	
REVENUES					
Taxes:					
Sales	\$ 5,450,023	\$ 253,741	\$ -	\$ 574,417	\$ 6,278,181
Income	4,174,859	-	-	107	4,174,966
Tobacco	83,224	-	-	330,109	413,333
Property	22,910	13,822	-	-	36,732
Motor vehicle and fuel	915	1,801,551	-	106	1,802,572
Other	453,274	-	-	106,166	559,440
Intergovernmental	8,831,263	612,940	57	55,159	9,499,419
Licenses, fees, and permits	115,156	125,969	-	205,965	447,090
Earnings on investments	112,624	44,228	(106,950)	85,977	135,879
Sales and charges for services	95,288	940	40,227	30,874	167,329
Fines, forfeitures, and penalties	33,805	-	-	133,504	167,309
Gaming	6,695	-	-	87,309	94,004
Tobacco settlement	115,587	-	-	-	115,587
Other	112,495	10,042	58,278	82,628	263,443
Total Revenues	<u>19,608,118</u>	<u>2,863,233</u>	<u>(8,388)</u>	<u>1,692,321</u>	<u>24,155,284</u>
EXPENDITURES					
Current:					
General government	834,957	-	3	131,552	966,512
Health and welfare	10,560,068	-	5,430	309,083	10,874,581
Inspection and regulation	60,742	-	-	123,709	184,451
Education	5,606,652	-	45,975	588,235	6,240,862
Protection and safety	1,339,292	-	5,027	103,053	1,447,372
Transportation	76	570,895	-	59,312	630,283
Natural resources	117,947	-	-	124,946	242,893
Intergovernmental revenue sharing	1,785,454	1,241,109	-	-	3,026,563
Debt service:					
Principal	44,543	393	-	216,292	261,228
Interest and other fiscal charges	43,197	1,417	-	166,242	210,856
Capital outlay	59,983	726,310	323	320,335	1,106,951
Total Expenditures	<u>20,452,911</u>	<u>2,540,124</u>	<u>56,758</u>	<u>2,142,759</u>	<u>25,192,552</u>
Excess (Deficiency) of Revenues Over Expenditures	(844,793)	323,109	(65,146)	(450,438)	(1,037,268)
OTHER FINANCING SOURCES (USES)					
Transfers in	416,587	4,687	273	476,224	897,771
Transfers out	(1,136,417)	(399,899)	(95,430)	(242,338)	(1,874,084)
Proceeds from sale of trust land	-	-	249,970	-	249,970
Proceeds from sale of capital assets	-	28,233	-	-	28,233
Capital lease and installment purchase contracts	3,146	-	-	20,410	23,556
Proceeds from notes and loans	-	19,529	-	-	19,529
Bonds issued	-	-	-	563,950	563,950
Refunding bonds issued	-	-	-	82,880	82,880
Payment to refunded bond escrow agent	-	-	-	(86,547)	(86,547)
Grant anticipation notes issued	-	-	-	68,000	68,000
Certificates of participation issued	-	-	-	238,990	238,990
Premium on debt issued	-	-	-	48,972	48,972
Total Other Financing Sources (Uses)	<u>(716,684)</u>	<u>(347,450)</u>	<u>154,813</u>	<u>1,170,541</u>	<u>261,220</u>
Net Change in Fund Balances	(1,561,477)	(24,341)	89,667	720,103	(776,048)
Fund Balances - Beginning, as restated	1,923,099	830,258	2,455,057	1,091,640	6,300,054
Fund Balances - Ending	<u>\$ 361,622</u>	<u>\$ 805,917</u>	<u>\$ 2,544,724</u>	<u>\$ 1,811,743</u>	<u>\$ 5,524,006</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, 2008
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ (776,048)

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

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	1,106,951	
Infrastructure adjustment	(25,488)	
Depreciation expense	<u>(99,412)</u>	982,051

The net revenue of internal service funds is included with governmental activities in the Statement of Activities. 3,695

Some revenues reported in the Statement of Activities are not currently available at year-end and are not reported as revenue in the governmental funds.

Income taxes	30,460	
Tobacco settlement	11,000	
Accrued right-of-way lease revenue	14,188	
Accrued interest on land sales contracts	53,435	
Other revenue	<u>2,292</u>	111,375

Certain revenues that are reported as resources in the funds, but were earned in prior fiscal years, are not reported in the Statement of Activities.

Sales taxes	(7,762)	
Operating grants	<u>(5,759)</u>	(13,521)

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 FY 2008, mortgage payments exceeded gains resulting from current year land sales. (53,017)

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

Compensated absences	(26,126)	
Other noncurrent expenses	<u>(37)</u>	(26,163)

Certain expenditures that are reported in the governmental funds in the current year, but were incurred in prior fiscal years, are not reported in the Statement of Activities.

AHCCCS accrued programmatic costs		2,529
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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, 2008
 (Expressed in Thousands)

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

New bonds issued	(563,950)	
Refunding bonds issued	(82,880)	
Grant anticipation notes issued	(68,000)	
New certificates of participation issued	(238,990)	
Proceeds from notes and loans	(19,529)	
Bond issuance costs	3,447	
Premium on debt issued	<u>(48,972)</u>	(1,018,874)

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

Debt service principal	261,228	
Payment to refunded bond escrow agent	86,547	
Debt premium/discount amortization	23,859	
Amortization of bond issuance costs	(759)	
Amortization of deferred amount	<u>(3,974)</u>	366,901

Payments made from debt service reserve accounts to complete debt refundings are reported as expenditures in the governmental funds, however, reserve account balances were included in the face value of the original debt and, therefore, are included in the calculation of deferred loss on refundings in the Statement of Net Assets. 9,794

Accrued interest on long-term obligations is not due and payable from current financial resources and, therefore, is not reported in the governmental funds. (1,043)

Some capital asset additions were financed through capital leases and installment purchase contracts. Such financing arrangements are reported as an other financing source in the governmental funds, however, these amounts are reported as liabilities in the Statement of Net Assets. (23,556)

Change in net assets of governmental activities \$ (435,877)

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

STATE OF ARIZONA
STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2008
 (Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
ASSETS					
Current Assets:					
Cash	\$ 156,632	\$ -	\$ 35,683	\$ -	\$ 992
Cash with U.S. Treasury	-	1,032,075	-	-	-
Cash and pooled investments with State Treasurer	164,245	-	763	55,850	23,832
Restricted cash and pooled investments with State Treasurer	-	-	-	-	78,034
Collateral investment pool	-	-	47,810	-	-
Short-term investments	57,066	-	-	-	100
Receivables, net of allowances:					
Taxes	-	65,980	4,696	-	-
Interest	951	-	1,928	-	691
Loans and notes	3,514	-	-	-	13,832
Other	90,813	9,860	532	5,173	8,512
Due from U.S. Government	77,577	-	-	-	337
Due from local governments	3,100	-	-	-	-
Due from others	10,700	-	-	-	-
Due from other Funds	-	-	-	-	33,966
Inventories, at cost	20,375	-	-	3,514	7,054
Other current assets	9,329	-	-	-	459
Total Current Assets	<u>594,302</u>	<u>1,107,915</u>	<u>91,412</u>	<u>64,537</u>	<u>167,809</u>
Noncurrent Assets:					
Restricted assets:					
Cash	18,904	-	-	-	-
Cash held by trustee	74,178	-	-	-	-
Investments	38,018	-	-	-	-
Investments held by trustee	37,843	-	1	-	-
Receivables, net of allowances:					
Loans and notes	32,230	-	-	-	20,273
Other	9,184	-	-	-	-
Investments	143,000	-	295,619	-	-
Endowment investments	285,962	-	-	-	-
Other long-term assets	10,448	-	-	7,748	-
Capital assets:					
Land and other non-depreciable	298,042	-	2,997	983	5,674
Buildings, equipment, and other depreciable, net of accumulated depreciation	2,975,476	-	17,442	3,019	18,224
Total Noncurrent Assets	<u>3,923,285</u>	<u>-</u>	<u>316,059</u>	<u>11,750</u>	<u>44,171</u>
Total Assets	<u>4,517,587</u>	<u>1,107,915</u>	<u>407,471</u>	<u>76,287</u>	<u>211,980</u>

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

<u>TOTAL ENTERPRISE FUNDS</u>	<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS</u>
\$ 193,307	\$ 1,301
1,032,075	-
244,690	183,965
78,034	-
47,810	-
57,166	-
70,676	-
3,570	33
17,346	-
114,890	14,578
77,914	1,813
3,100	-
10,700	-
33,966	1,940
30,943	3,594
9,788	4,441
<u>2,025,975</u>	<u>211,665</u>
18,904	-
74,178	-
38,018	-
37,844	-
52,503	-
9,184	-
438,619	-
285,962	-
18,196	-
307,696	-
<u>3,014,161</u>	<u>77,086</u>
<u>4,295,265</u>	<u>77,086</u>
<u>6,321,240</u>	<u>288,751</u>

(Continued)

STATE OF ARIZONA
STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2008
 (Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	141,999	-	6,700	4,323	2,151
Payable for securities purchased	-	-	1,419	-	-
Accrued liabilities	53,685	20,928	-	-	8,411
Obligations under securities loan agreements	-	-	47,810	-	-
Due to U.S. Government	-	257	-	-	-
Due to local governments	-	-	-	6,855	-
Due to others	32,155	13,276	-	34,273	-
Due to other Funds	-	458	-	19,025	72,170
Unearned deferred revenue	96,659	-	-	-	11,092
Current portion of accrued insurance losses	-	-	26,639	-	-
Current portion of long-term debt	88,807	-	-	-	106
Current portion of other long-term liabilities	12,748	-	-	321	923
Total Current Liabilities	<u>426,053</u>	<u>34,919</u>	<u>82,568</u>	<u>64,797</u>	<u>94,853</u>
Noncurrent Liabilities:					
Unearned deferred revenue	24,970	-	-	-	-
Contracts payable	-	-	-	-	14,877
Accrued insurance losses	-	-	355,499	-	-
Funds held for others	55,850	-	-	-	-
Long-term debt	1,920,500	-	-	-	283
Other long-term liabilities	52,043	-	-	-	82
Total Noncurrent Liabilities	<u>2,053,363</u>	<u>-</u>	<u>355,499</u>	<u>-</u>	<u>15,242</u>
Total Liabilities	<u>2,479,416</u>	<u>34,919</u>	<u>438,067</u>	<u>64,797</u>	<u>110,095</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,339,319	-	20,439	4,002	23,895
Restricted for:					
Capital projects	6,207	-	-	-	-
Unemployment Compensation	-	1,072,996	-	-	-
Debt service	10,045	-	-	-	-
University funds:					
Expendable	264,466	-	-	-	-
Nonexpendable	153,383	-	-	-	-
Loans and other financial assistance:					
Expendable	-	-	-	-	74,115
Unrestricted (deficit)	264,751	-	(51,035)	7,488	3,875
Total Net Assets	<u>\$ 2,038,171</u>	<u>\$ 1,072,996</u>	<u>\$ (30,596)</u>	<u>\$ 11,490</u>	<u>\$ 101,885</u>

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

Net assets of business-type activities

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

<u>TOTAL ENTERPRISE FUNDS</u>	<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS</u>
155,173	85,542
1,419	-
83,024	961
47,810	-
257	-
6,855	-
79,704	-
91,653	1,414
107,751	-
26,639	52,126
88,913	2,769
13,992	9,210
<u>703,190</u>	<u>152,022</u>
24,970	-
14,877	-
355,499	311,801
55,850	-
1,920,783	3,110
52,125	77,418
<u>2,424,104</u>	<u>392,329</u>
<u>3,127,294</u>	<u>544,351</u>
1,387,655	71,207
6,207	-
1,072,996	-
10,045	-
264,466	-
153,383	-
74,115	-
225,079	(326,807)
<u>\$ 3,193,946</u>	<u>\$ (255,600)</u>
(36,725)	
<u>\$ 3,157,221</u>	

STATE OF ARIZONA
**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
OPERATING REVENUES					
Sales and charges for services:					
Student tuition and fees, net of scholarship allowances of \$214,933	\$ 767,344	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprises, net of scholarship allowances of \$12,108	325,556	-	-	-	-
Educational department	74,796	-	-	-	-
Lottery	-	-	-	472,937	-
Other	-	-	-	-	154,774
Unemployment assessments	-	300,371	-	-	-
Workers' compensation assessments	-	-	23,627	-	-
Intergovernmental	456,416	5,411	-	-	1,127
Nongovernmental grants and contracts	105,373	-	-	-	-
Licenses, fees, and permits	-	-	-	-	635
Earnings on investments	-	-	-	-	1,755
Fines, forfeitures, and penalties	-	2,260	-	-	-
Settlement income	-	-	1,820	-	-
Other	33,736	22	-	115	2,319
Total Operating Revenues	1,763,221	308,064	25,447	473,052	160,610
OPERATING EXPENSES					
Cost of sales and benefits	799,825	356,333	7,666	309,554	112,189
Interest on notes payable	-	-	-	-	3,796
Scholarships and fellowships	132,681	-	-	-	-
Personal services	1,991,191	-	-	6,095	29,286
Contractual services	-	-	-	11,166	8,145
Depreciation and amortization	200,458	-	1,288	316	1,849
Insurance	-	-	-	56	290
Other	-	-	-	2,391	6,662
Total Operating Expenses	3,124,155	356,333	8,954	329,578	162,217
Operating Income (Loss)	(1,360,934)	(48,269)	16,493	143,474	(1,607)
NON-OPERATING REVENUES (EXPENSES)					
Share of State sales tax revenues	72,945	-	-	-	-
Intergovernmental	167,166	-	-	-	-
Gifts and donations	142,272	-	-	-	-
Gain (loss) on sale of capital assets	(449)	-	-	-	3
Investment income (loss)	57,299	49,032	(23,697)	-	6,161
Endowment earnings on investments	(28,356)	-	-	-	-
Other non-operating revenue	25,233	-	2,005	1,170	410
Distributions to local governments	-	-	-	(42,162)	-
Interest expense	(90,256)	-	-	-	-
Other non-operating expense	(18,252)	-	(5,870)	(1,000)	(83)
Total Non-Operating Revenues (Expenses)	327,602	49,032	(27,562)	(41,992)	6,491
Income (Loss) Before Contributions, Special Items, Extraordinary Items, and Transfers	(1,033,332)	763	(11,069)	101,482	4,884
Capital grants and contributions	38,029	-	-	-	-
Contributions to permanent endowments	3,927	-	-	-	-
Special Item:					
Asset impairment of donated historical treasures	(20,100)	-	-	-	-
Extraordinary Item:					
Insurance recovery, net of impairment loss	15,475	-	-	-	-
Transfers in	1,073,267	-	19,000	-	7,355
Transfers out	-	(2,805)	-	(101,339)	(1,043)
Change in Net Assets	77,266	(2,042)	7,931	143	11,196
Total Net Assets - Beginning, as restated	1,960,905	1,075,038	(38,527)	11,347	90,689
Total Net Assets - Ending	\$ 2,038,171	\$ 1,072,996	\$ (30,596)	\$ 11,490	\$ 101,885

Change in net assets of enterprise funds

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

Change in net assets of business-type activities

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

		GOVERNMENTAL	
		ACTIVITIES -	
TOTAL		INTERNAL	
ENTERPRISE		SERVICE FUNDS	
FUNDS			
\$	767,344	\$	-
	325,556		-
	74,796		-
	472,937		-
	154,774	901,112	
	300,371		-
	23,627		-
	462,954		-
	105,373		-
	635		-
	1,755		-
	2,260		-
	1,820		-
	36,192		50
	<u>2,730,394</u>		<u>901,162</u>
	1,585,567	713,853	
	3,796	-	
	132,681	-	
	2,026,572	34,690	
	19,311	34,020	
	203,911	14,254	
	346	68,073	
	9,053	14,054	
	<u>3,981,237</u>	<u>878,944</u>	
	<u>(1,250,843)</u>	<u>22,218</u>	
	72,945	-	
	167,166	-	
	142,272	-	
	(446)	(132)	
	88,795	371	
	(28,356)	-	
	28,818	46	
	(42,162)	-	
	(90,256)	(263)	
	<u>(25,205)</u>	<u>-</u>	
	<u>313,571</u>	<u>22</u>	
	<u>(937,272)</u>	<u>22,240</u>	
	38,029	4,759	
	3,927	-	
	(20,100)	-	
	15,475	-	
	1,099,622	-	
	<u>(105,187)</u>	<u>(18,122)</u>	
	94,494	8,877	
	<u>3,099,452</u>	<u>(264,477)</u>	
\$	<u>3,193,946</u>	\$	<u>(255,600)</u>
\$	94,494		
	<u>5,182</u>		
\$	<u>99,676</u>		

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL		
			COMMISSION SPECIAL FUND	LOTTERY	OTHER
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ -	\$ -	\$ -	\$ 262,697	\$ 153,677
Receipts from assessments	-	303,796	24,501	-	-
Receipts from student tuition and fees	743,666	-	-	-	-
Receipts from sales and services of auxiliary enterprises	310,851	-	-	-	-
Receipts from sales and services of educational departments	74,283	-	-	-	-
Receipts from interfund services / premiums	-	-	-	-	-
Receipts from federal and local governments	552,827	5,411	-	-	934
Receipts from student loans collected	33,256	-	-	-	-
Receipts from repayment of loans to local governments	-	-	-	-	7,715
Receipts from settlement income	-	-	1,821	-	-
Receipts from other Funds	-	-	-	-	65,000
Payments to suppliers, prize winners, claimants, insurance companies, or beneficiaries	(774,811)	(354,892)	(32,798)	(123,819)	(128,696)
Payments to employees	(1,942,387)	-	-	(6,088)	(28,734)
Payments to retirees	-	-	-	-	-
Payments for scholarships and fellowships	(127,762)	-	-	-	-
Payments for student loans issued	(34,862)	-	-	-	-
Payments for loans to local governments	-	-	-	-	(26,038)
Other receipts (payments)	34,694	2,282	-	10,413	(721)
Net Cash Provided (Used) by Operating Activities	(1,130,245)	(43,403)	(6,476)	143,203	43,137
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Custodial funds received	337,836	-	-	-	-
Office rental receipts	-	-	2,005	-	-
Share of State sales tax receipts	72,432	-	-	-	-
Grants and contributions received	692,047	-	-	-	10
Proceeds from interfund loans	-	-	-	-	50,000
Transfers from other Funds	1,038,642	-	19,000	-	7,353
Custodial funds disbursed	(336,832)	-	-	-	-
Grants and contributions disbursed	(392,082)	-	-	-	-
Distributions to local governments	-	-	-	(42,162)	-
Payments of interfund loans	-	-	-	-	(156,160)
Transfers to other Funds	-	(2,879)	-	(105,464)	(1,045)
Other receipts (payments)	30,866	-	(2,668)	-	400
Net Cash Provided (Used) by Non-capital Financing Activities	1,442,909	(2,879)	18,337	(147,626)	(99,442)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	200	-	-	-	-
Proceeds from capital debt, installment purchase contracts, and capital leases	92,566	-	-	-	386
Capital grants and contributions received	44,566	-	-	-	-
Transfers from other funds	20,372	-	-	-	-
Acquisition and construction of capital assets	(419,618)	-	(568)	(163)	(3,857)
Interest paid on capital debt, installment purchase contracts, and capital leases	(92,589)	-	-	-	-
Principal paid on capital debt, installment purchase contracts, and capital leases	(91,527)	-	-	-	(19)
Other receipts	10,000	-	1	-	-
Net Cash (Used) by Capital and Related Financing Activities	(436,030)	-	(567)	(163)	(3,490)

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

		GOVERNMENTAL	
TOTAL		ACTIVITIES -	
ENTERPRISE		INTERNAL	
FUNDS		SERVICE FUNDS	
\$	416,374	\$	-
	328,297		-
	743,666		-
	310,851		-
	74,283		-
	-	895,339	-
	559,172		-
	33,256		-
	7,715		-
	1,821		-
	65,000		-
	(1,415,016)	(788,026)	
	(1,977,209)	(34,539)	
	-	(10,685)	
	(127,762)	-	
	(34,862)	-	
	(26,038)	-	
	46,668	43	
	<u>(993,784)</u>	<u>62,132</u>	
	337,836	-	
	2,005	-	
	72,432	-	
	692,057	-	
	50,000	-	
	1,064,995	-	
	(336,832)	-	
	(392,082)	-	
	(42,162)	-	
	(156,160)	-	
	(109,388)	(18,122)	
	28,598	1	
	<u>1,211,299</u>	<u>(18,121)</u>	
	200	1,031	
	92,952	-	
	44,566	-	
	20,372	-	
	(424,206)	(19,259)	
	(92,589)	(263)	
	(91,546)	(2,672)	
	10,001	51	
	<u>(440,250)</u>	<u>(21,112)</u>	

(Continued)

STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL		
			COMMISSION SPECIAL FUND	LOTTERY	OTHER
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	314,893	-	188,359	-	-
Interest and dividends from investments	44,307	49,031	13,334	620	6,583
Change in cash collateral received from securities lending transactions	-	-	(5,490)	-	-
Purchase of investments	(216,599)	-	(224,560)	-	(3)
Other payments	-	-	(1,358)	-	(81)
Net Cash Provided (Used) by Investing Activities	<u>142,601</u>	<u>49,031</u>	<u>(29,715)</u>	<u>620</u>	<u>6,499</u>
Net Increase (Decrease) in Cash and Cash Equivalents	19,235	2,749	(18,421)	(3,966)	(53,296)
Cash and Cash Equivalents - Beginning	394,724	1,029,326	102,677	59,816	156,154
Cash and Cash Equivalents - Ending	<u>\$ 413,959</u>	<u>\$ 1,032,075</u>	<u>\$ 84,256</u>	<u>\$ 55,850</u>	<u>\$ 102,858</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (1,360,934)	\$ (48,269)	\$ 16,493	\$ 143,474	\$ (1,607)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	200,458	-	1,288	316	1,849
Loss on sale of capital assets	-	-	-	44	17
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(14,700)	2,654	724	(403)	(19,498)
(Increase) in due from U.S. Government	-	-	-	-	(193)
Decrease in due from local governments	-	-	-	-	79
Decrease in due from other Funds	-	-	-	-	64,795
(Increase) decrease in inventories, at cost	(2,321)	-	-	432	242
(Increase) decrease in other assets	(3,739)	-	-	(620)	(46)
Increase (decrease) in accounts payable	27,805	-	(5,972)	(829)	(841)
Increase (decrease) in accrued liabilities	13,971	(1,028)	-	789	(3,343)
Increase in due to U.S. Government	-	267	-	-	-
Increase (decrease) in due to others	(233)	2,973	-	-	-
Increase in due to other Funds	-	-	-	-	3,792
Increase (decrease) in deferred revenue	9,448	-	-	-	(2,192)
Increase (decrease) in accrued insurance losses	-	-	(19,009)	-	-
Increase in other liabilities	-	-	-	-	83
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,130,245)</u>	<u>\$ (43,403)</u>	<u>\$ (6,476)</u>	<u>\$ 143,203</u>	<u>\$ 43,137</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES					
Gifts and conveyances of capital assets	\$ 743	\$ -	\$ -	\$ -	\$ -
Assets acquired under capital leases	17,002	-	-	-	-
Contribution of capital assets from other Funds	-	-	-	-	-
Loss on disposal of capital assets, net	(3,933)	-	-	-	-
Asset impairment of collections	(20,100)	-	-	-	-
Change in fair value of investments	(11,925)	-	(38,818)	35	560
Unrealized loss on endowments	(8,292)	-	-	-	-
Refinancing of long-term debt	120,970	-	-	-	-
Amortization of bond discount and issuance costs	(2,250)	-	-	-	-
Amortization of bond premium	1,402	-	-	-	-
Insurance reimbursement receivable	10,700	-	-	-	-
Amortization of deferred rent	4,900	-	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ 109,217</u>	<u>\$ -</u>	<u>\$ (38,818)</u>	<u>\$ 35</u>	<u>\$ 560</u>

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
503,252	-
113,875	365
(5,490)	-
(441,162)	-
(1,439)	-
<u>169,036</u>	<u>365</u>
(53,699)	23,264
<u>1,742,697</u>	<u>162,002</u>
<u>\$ 1,688,998</u>	<u>\$ 185,266</u>

\$ (1,250,843) \$ 22,218

203,911	14,254
61	-
(31,223)	(6,125)
(193)	(813)
79	-
64,795	345
(1,647)	186
(4,405)	190
20,163	9,798
10,389	105
267	-
2,740	-
3,792	491
7,256	-
(19,009)	19,822
83	1,661
<u>\$ (993,784)</u>	<u>\$ 62,132</u>

\$ 743	\$ -
17,002	-
-	4,759
(3,933)	-
(20,100)	-
(50,148)	-
(8,292)	-
120,970	-
(2,250)	-
1,402	-
10,700	-
4,900	-
<u>\$ 70,994</u>	<u>\$ 4,759</u>

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2008
 (Expressed in Thousands)

	PENSION AND OTHER		
	EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUSTS	AGENCY FUNDS
ASSETS			
Cash	\$ 192,422	\$ -	\$ 29,474
Cash and pooled investments with State Treasurer	-	-	230,724
Receivables, net of allowances:			
Accrued interest and dividends	96,868	13,695	140
Securities sold	545,803	-	-
Forward contract receivable	1,599,699	-	-
Contributions	72,649	-	-
Court fees	362	-	-
Miscellaneous receivables	10,721	-	-
Total receivables	<u>2,326,102</u>	<u>13,695</u>	<u>140</u>
Due from others	-	-	78,655
Investments, at fair value:			
Temporary investments	1,641,778	-	-
Temporary investments from securities lending	3,794,246	-	-
U.S. Government securities	5,238,817	2,472,284	-
Corporate bonds	3,220,990	8,768	-
Corporate notes	-	788,151	-
Corporate stocks	21,754,146	-	-
Real estate mortgages and contracts	513,861	-	-
Collateral investment pool	1,331,594	-	-
Repurchase agreements	-	1,642,653	-
Money market mutual funds	-	4,886	-
Other investments	619,758	4,248	13,362
Total investments	<u>38,115,190</u>	<u>4,920,990</u>	<u>13,362</u>
Custodial securities in safekeeping	-	-	3,344,377
Property and equipment, net of accumulated depreciation	5,174	-	-
Total Assets	<u>40,638,888</u>	<u>4,934,685</u>	<u>3,696,732</u>
LIABILITIES			
Accounts payable and other current liabilities	1,643,729	-	-
Payable for securities purchased	1,326,041	1,040	-
Obligation under securities loan agreements	5,125,840	-	-
Due to local governments	-	13,359	172,732
Due to others	-	-	3,524,000
Total Liabilities	<u>8,095,610</u>	<u>14,399</u>	<u>3,696,732</u>
NET ASSETS			
Held in trust for:			
Pension benefits	32,543,278	-	-
Pool participants	-	4,920,286	-
Total Net Assets	<u>\$ 32,543,278</u>	<u>\$ 4,920,286</u>	<u>\$ -</u>

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

STATE OF ARIZONA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	PENSION AND OTHER	
	EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUSTS
ADDITIONS:		
Member contributions	\$ 1,058,197	\$ -
Employer contributions	1,178,548	-
Transfers from other Funds	164,194	-
Member purchase of service credit	101,429	-
Court fees	4,155	-
Investment income (loss):		
Net decrease in fair value of investments	(3,367,770)	(4,918)
Interest income	382,355	168,312
Dividends	429,898	-
Real estate	23,785	-
Other investment income	15,148	-
Securities lending income	206,762	-
Total investment income (loss)	(2,309,822)	163,394
Less investment expenses:		
Investment activity expenses	90,038	2,880
Securities lending expenses	175,277	-
Net investment income (loss)	(2,575,137)	160,514
Capital share and individual account transactions:		
Shares sold	-	6,910,735
Reinvested interest income	-	176,870
Shares redeemed	-	(6,139,456)
Net capital share and individual account transactions	-	948,149
Other additions	10,683	-
Total Additions	(57,931)	1,108,663
DEDUCTIONS:		
Retirement and disability benefits	2,420,601	-
Death benefits	22,648	-
Refunds to withdrawing members, including interest	128,548	-
Administrative expense	39,347	-
Dividends to investors	-	160,514
Transfers to other Funds	164,194	-
Other deductions	14,023	-
Total Deductions	2,789,361	160,514
Change in net assets held in trust for:		
Pension benefits	(2,847,292)	-
Pool participants	-	948,149
Net Assets - Beginning	35,390,570	3,972,137
Net Assets - Ending	\$ 32,543,278	\$ 4,920,286

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

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STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS - PROPRIETARY FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
ASSETS				
Current Assets:				
Cash	\$ -	\$ 10,267	\$ -	\$ 10,267
Cash and pooled investments with State Treasurer	190,382	-	5,421	195,803
Cash held by trustee	5,240	-	-	5,240
Short-term investments	-	104,906	-	104,906
Restricted investments held by trustee	-	10,414	3,274	13,688
Receivables, net of allowances:				
Interest	10,284	18	104	10,406
Other	5,001	89,093	2,527	96,621
Inventories, at cost	-	12,702	-	12,702
Other current assets	-	3,001	2,379	5,380
Total Current Assets	<u>210,907</u>	<u>230,401</u>	<u>13,705</u>	<u>455,013</u>
Noncurrent Assets:				
Restricted assets:				
Investments held by trustee	-	106,862	6,547	113,409
Loans and notes receivable, net of allowances	897,763	-	-	897,763
Investments	97,101	-	-	97,101
Other noncurrent assets	4,566	15,833	36,571	56,970
Capital assets:				
Land and other non-depreciable	-	64,419	-	64,419
Buildings, equipment, and other depreciable	101	355,090	1,332	356,523
Less: accumulated depreciation	(101)	(223,215)	(1,146)	(224,462)
Total Noncurrent Assets	<u>999,430</u>	<u>318,989</u>	<u>43,304</u>	<u>1,361,723</u>
Total Assets	<u>1,210,337</u>	<u>549,390</u>	<u>57,009</u>	<u>1,816,736</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	-	30,404	2,924	33,328
Accrued liabilities	8,948	35,915	633	45,496
Current portion of accrued insurance losses	-	5,770	-	5,770
Current portion of long-term debt	27,420	4,040	3,450	34,910
Current portion of other long-term liabilities	65	6,720	67	6,852
Total Current Liabilities	<u>36,433</u>	<u>82,849</u>	<u>7,074</u>	<u>126,356</u>
Noncurrent Liabilities:				
Unearned deferred revenue	2,321	-	-	2,321
Accrued insurance losses	-	10,340	-	10,340
Long-term debt	787,713	223,828	46,129	1,057,670
Other long-term liabilities	-	10,169	-	10,169
Total Noncurrent Liabilities	<u>790,034</u>	<u>244,337</u>	<u>46,129</u>	<u>1,080,500</u>
Total Liabilities	<u>826,467</u>	<u>327,186</u>	<u>53,203</u>	<u>1,206,856</u>
NET ASSETS				
Invested in capital assets, net of related debt	-	41,603	186	41,789
Restricted for:				
Debt service	-	26,984	-	26,984
Loans and other financial assistance	321,576	-	-	321,576
Unrestricted	62,294	153,617	3,620	219,531
Total Net Assets	<u>\$ 383,870</u>	<u>\$ 222,204</u>	<u>\$ 3,806</u>	<u>\$ 609,880</u>

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

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**
COMPONENT UNITS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	WATER INFRASTRUCTURE FINANCE AUTHORITY	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	TOTAL
OPERATING REVENUES				
Sales and charges for services	\$ -	\$ 498,827	\$ 28,132	\$ 526,959
Intergovernmental	48,063	-	-	48,063
Licenses, fees, and permits	9,893	-	-	9,893
Earnings on investments	14,695	-	-	14,695
Total Operating Revenues	<u>72,651</u>	<u>498,827</u>	<u>28,132</u>	<u>599,610</u>
OPERATING EXPENSES				
Cost of sales and benefits	-	111,856	26,886	138,742
Personal services	1,102	227,685	-	228,787
Contractual services	675	78,450	-	79,125
Aid to local governments	75	-	-	75
Depreciation and amortization	-	23,722	31	23,753
Insurance	-	7,581	-	7,581
Other	28,654	26,989	1,595	57,238
Total Operating Expenses	<u>30,506</u>	<u>476,283</u>	<u>28,512</u>	<u>535,301</u>
Operating Income (Loss)	<u>42,145</u>	<u>22,544</u>	<u>(380)</u>	<u>64,309</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	10,035	962	643	11,640
Other non-operating revenue	-	-	4	4
Interest expense	-	(4,463)	(309)	(4,772)
Other non-operating expense	-	(1,228)	-	(1,228)
Total Non-Operating Revenues (Expenses)	<u>10,035</u>	<u>(4,729)</u>	<u>338</u>	<u>5,644</u>
Income (Loss) Before Contributions	<u>52,180</u>	<u>17,815</u>	<u>(42)</u>	<u>69,953</u>
Capital grants and contributions	-	17,126	-	17,126
Change in Net Assets	52,180	34,941	(42)	87,079
Total Net Assets - Beginning	<u>331,690</u>	<u>187,263</u>	<u>3,848</u>	<u>522,801</u>
Total Net Assets - Ending	<u>\$ 383,870</u>	<u>\$ 222,204</u>	<u>\$ 3,806</u>	<u>\$ 609,880</u>

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

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2008
(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	\$ 7,541	\$ 61,039	\$ 215	\$ 14,568	\$ 83,363
Receivables:					
Pledges receivable	137,555	15,873	-	51,318	204,746
Other receivables	1,636	-	5,444	11,491	18,571
Total receivables	<u>139,191</u>	<u>15,873</u>	<u>5,444</u>	<u>62,809</u>	<u>223,317</u>
Investments:					
Investments in securities	443,597	356,262	31,590	157,267	988,716
Investments held in trust for Universities	68,181	37,744	-	5,183	111,108
Other investments	53,858	5,913	750	243	60,764
Total investments	<u>565,636</u>	<u>399,919</u>	<u>32,340</u>	<u>162,693</u>	<u>1,160,588</u>
Net direct financing leases	28,220	-	46,736	49,180	124,136
Property and equipment, net of accumulated depreciation	21,393	3,670	218,336	121,918	365,317
Licenses	-	-	-	5,570	5,570
Other assets	18,460	3,868	5,010	20,574	47,912
Total Assets	<u>780,441</u>	<u>484,369</u>	<u>308,081</u>	<u>437,312</u>	<u>2,010,203</u>
LIABILITIES					
Liability under Universities' endowment trust agreements	68,086	19,474	-	5,845	93,405
Bonds payable	83,075	-	298,534	217,480	599,089
Unearned revenue	4,390	-	5,671	28,600	38,661
Other liabilities	29,816	3,859	33,118	28,769	95,562
Total Liabilities	<u>185,367</u>	<u>23,333</u>	<u>337,323</u>	<u>280,694</u>	<u>826,717</u>
NET ASSETS					
Permanently restricted	350,575	329,649	-	42,172	722,396
Temporarily restricted	220,198	113,166	-	70,704	404,068
Unrestricted (deficit)	24,301	18,221	(29,242)	43,742	57,022
Total Net Assets	<u>\$ 595,074</u>	<u>\$ 461,036</u>	<u>\$ (29,242)</u>	<u>\$ 156,618</u>	<u>\$ 1,183,486</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, 2008
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY FOUNDATION	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
REVENUES					
Contributions	\$ 98,519	\$ 74,191	\$ -	\$ 38,105	\$ 210,815
Rental revenue	801	-	16,117	33,502	50,420
Sales and services	17,175	-	447	8,982	26,604
Net investment income	(1,421)	(1,587)	1,217	(938)	(2,729)
Capital lease revenue	-	-	-	12,400	12,400
Licensing revenue	-	-	-	6,335	6,335
Other revenues	7,479	10,662	9,770	7,500	35,411
Total Revenues	<u>122,553</u>	<u>83,266</u>	<u>27,551</u>	<u>105,886</u>	<u>339,256</u>
EXPENSES					
Program services:					
Payments to Universities	30,814	44,376	7,604	12,599	95,393
Leasing related expenses	-	-	-	7,624	7,624
Payments on behalf of Universities	-	12,783	-	10,121	22,904
Other program services	12,929	-	-	10,318	23,247
Personal services, operations, and administrative expenses	22,300	4,019	10,328	19,372	56,019
Fundraising expenses	-	5,943	-	4,007	9,950
Interest	2,217	-	13,607	3,563	19,387
Assets expensed under capital lease agreement	-	-	-	23,990	23,990
Depreciation and amortization	1,665	-	9,037	1,397	12,099
Other expenses	9,480	-	1,597	2,082	13,159
Total Expenses	<u>79,405</u>	<u>67,121</u>	<u>42,173</u>	<u>95,073</u>	<u>283,772</u>
Increase (Decrease) in Net Assets	43,148	16,145	(14,622)	10,813	55,484
Net Assets - Beginning, as restated	<u>551,926</u>	<u>444,891</u>	<u>(14,620)</u>	<u>145,805</u>	<u>1,128,002</u>
Net Assets - Ending	<u>\$ 595,074</u>	<u>\$ 461,036</u>	<u>\$ (29,242)</u>	<u>\$ 156,618</u>	<u>\$ 1,183,486</u>

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

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JUNE 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The State is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 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 separate columns in the government-wide financial statements to emphasize they are legally separate from the State. Because the component units affiliated with the Universities follow Financial Accounting Standards Board (FASB) statements, these financial statements have been reported on separate pages following the respective counterpart financial statements of the State. For financial reporting purposes, only the statement of financial position and the statement of activities for component units affiliated with the Universities are included in the State's financial statements as required by the GASB.

GASB Statement No. 14, *The Financial Reporting Entity* has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

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

The State reports the following blended component units:

The Arizona State Retirement System (ASRS) is a cost-sharing, multiple-employer, defined benefit pension plan that benefits employees of the State, its political subdivisions, and public schools. The ASRS is administered in accordance with provisions of Arizona Revised Statutes (ARS) Title 38, Chapter 5, Article 2. The ASRS is governed by a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms.

The Public Safety Personnel Retirement System (PSPRS) is an agent, multi-employer public employee retirement system that benefits fire fighters and police officers employed by the State and its political subdivisions. The PSPRS is jointly administered by the Fund Manager and 220 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4. The Fund Manager is a five-member board appointed by the Governor and approved by the Senate to serve a fixed three-year term. Each eligible group participating in the system has a five-member local board. All members serve a fixed four-year term.

The Elected Officials' Retirement Plan (EORP) is a cost-sharing, multi-employer public employee retirement plan that benefits all State and county elected officials and judges and certain elected city officials. The Fund Manager of the PSPRS administers the EORP plan according to the provisions of ARS Title 38, Chapter 5, Article 3.

The Corrections Officer Retirement Plan (CORP) is an agent, multi-employer public employee retirement plan that benefits county detention officers, certain employees of the State's Department of Corrections and Department of Juvenile Corrections, and judiciary, probation, surveillance and juvenile detention officers. The CORP is jointly administered by the Fund Manager of

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NOTES TO THE FINANCIAL STATEMENTS
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the PSPRS and 23 local boards according to the provisions of ARS Title 38, Chapter 5, Article 6. Each employer member participating in the CORP has a five-member local board. All members serve a fixed four-year term.

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

Arizona State Retirement System
3300 North Central Avenue
Phoenix, Arizona 85012-0250
(602) 240-2000 or (800) 621-3778

Public Safety Personnel Retirement System, Elected Officials' Retirement Plan or the Corrections Officer Retirement Plan
3010 East Camelback Road, Suite 200
Phoenix, Arizona 85016
(602) 255-5575

The State reports the following discretely presented component units:

Governmental Fund:

Greater Arizona Development Authority (GADA) – The purpose of the GADA is to provide cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The GADA was created by an act of the Arizona Legislature in 1997 and is a body, corporate and politic, of the State. The GADA is governed by a nine member Board of Directors consisting of four State of Arizona agency heads and five members, one of which shall be a representative of a tribal nation in Arizona, appointed by the Governor of the State. Members appointed by the Governor serve staggered five year terms. The GADA fund was originally capitalized with General Fund appropriations and requests for additional capitalization of the GADA must be approved by the Arizona Legislature. Complete financial statements may be obtained from the GADA's administrative office at 1700 West Washington Street, Executive Tower, Suite 600, Phoenix AZ 85007, (602) 771-1100.

Proprietary Funds:

University Medical Center (UMC) – The UMC is the primary teaching hospital for the College of Medicine, the College of Nursing, the College of Pharmacy, the College of Public Health, and the School of Health Related Professions of the University of Arizona (U of A). The UMC was created in 1984 when the State Legislature passed a bill that allowed the Arizona Board of Regents (ABOR) to convey the UMC to a private, not-for-profit, tax-exempt corporation. Although an autonomous entity was created, the teaching missions and research alliances with the U of A and the State remained. The ABOR confirms all members of the UMC's Board of Directors, and must approve all amendments to the UMC's articles of incorporation and bylaws. Complete financial statements may be obtained from the UMC's administrative offices at 655 East River Road, Tucson, Arizona 85704, (520) 694-2700.

Arizona Power Authority (APA) – The APA purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws. The APA is governed by a commission of five members appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among their membership for a term of two years. All revenue bonds issued by the APA must be approved by the State Certification Board. Complete financial statements may be obtained from the APA's administrative offices at 1810 West Adams Street, Phoenix, Arizona 85007-2697, (602) 542-4263.

Water Infrastructure Finance Authority (WIFA) – The WIFA is authorized to administer the Clean Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act, which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has also entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors. The ten Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor. Complete

STATE OF ARIZONA
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financial statements may be obtained from the WIFA's administrative offices at 1100 West Washington Street, Suite 290, Phoenix, Arizona 85007, (602) 364-1310.

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

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

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

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

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

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

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

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

Mesa Student Housing, LLC and Downtown Phoenix Student Housing, LLC – These foundations provide facilities for use by students of ASU.

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

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

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

University of Arizona Campus Research Corporation (CRC) – The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Park) and related properties. The CRC currently leases from the U of A the remaining 67.00% of building space of the Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

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

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

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

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

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

The Law Association – Law College Association, University of Arizona, P.O. Box 210176, Tucson, Arizona 85721-0176

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

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

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

Related Organizations

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

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

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

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

Arizona Housing Finance Authority (the Authority) – ARS §41-3902 established the Authority to issue bonds for residential dwelling units and multifamily residential rental projects in rural areas. The Authority may also establish mortgage credit certificate programs to finance residential dwelling units in rural areas. The Authority is required to notify and obtain written consent from the governing bodies of any city, town, county, tribal government, or existing corporation for any multifamily

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residential rental projects planned for their jurisdiction. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve terms of seven years, and can be removed only for cause.

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

Joint Ventures

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

B. BASIS OF PRESENTATION

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

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

The **Statement of Net Assets** presents the State's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or voter initiative.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources, which are imposed by management, but can be removed or modified.

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

The State does not allocate indirect expenses to programs or functions.

Program revenues include:

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

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

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

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major enterprise funds:

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

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

The Industrial Commission Special Fund – accounts for deposits not to exceed 1.50% of all premiums received by the State Compensation Fund and private insurance carriers during the preceding calendar year. These monies are used to provide additional awards as necessary to enable injured employees to accept the benefits of any law for promotion of vocational rehabilitation of persons disabled in industry. In addition, benefits may be paid for workers' compensation claims filed by employees of non-insured employers. The Industrial Commission (Commission) then pursues against the non-insured employer for reimbursement of all benefits paid, including assessed penalties.

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

Additionally, the State reports the following fund types:

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

Pension 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

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pension, health insurance premium subsidies, and long-term disability benefits of State employees and employees of other governmental entities participating in the plans.

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

The State’s business-type activities and enterprise funds follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The State has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. DEPOSITS AND INVESTMENTS

1. Cash and Cash Equivalents

On the Statement of Cash Flows, the amount reported as “Cash and Cash Equivalents” is equal to the total of the amounts on the Statement of Net Assets “Cash”, “Cash with U.S. Treasury”, “Cash and pooled investments with State Treasurer”, “Cash held by trustee” and “Collateral investment pool” (for the Industrial Commission Special Fund). For purposes of the Statement of Cash Flows, the State considers only those highly liquid debt instruments with an original maturity of ninety days or less to be cash equivalents.

- *Cash (not with State Treasurer)* – 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

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management pool and a demand deposit account. The operations and investments of the State Treasurer's pooled investments are described in Note 2.

- *Cash held by trustee* – consists of 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 Bank of New York Mellon (BNY Mellon) prices, as determined by independent, industry recognized data vendors who provide values that are either exchange based or matrix based. Rules and tolerance levels within BNY Mellon's security master database are used to determine reasonable accuracy. Equities are priced utilizing the primary market close price. In the absence of a closed price, the mid, bid, or ask price will be utilized. All bonds are priced using an evaluated price, the closing exchange price or the most recent exchange or quoted bid, 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 official price is normally the last traded price.

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 fair value of real estate investments directly owned by the ASRS is based on independent appraisals. Real estate, private equity, and opportunistic partnership investments are valued based on the partnership's financial statements. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, the ASRS, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. Security transactions and any resulting gains or losses are accounted for on a trade date basis. Net investment income (loss) includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, income from real estate and private partnerships, and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

For the PSPRS, the EORP, and the CORP, investments are reported at fair value. Short term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed income securities are valued using the last reported sales price or the estimated fair market value as determined by the fixed income broker/dealers. Directed real estate and venture capital investments were historically reported at cost but were marked-to-market during the fiscal year using appraisals to estimate the fair market value. Investment income is recognized as earned.

E. TAXES RECEIVABLE

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

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2008. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2008, 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

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market. In the governmental funds, inventories are accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

G. PROPERTY TAX CALENDAR

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

H. CAPITAL ASSETS

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

Most capital assets are depreciated over their useful life. However, the State utilizes an alternative accounting treatment for most infrastructure assets in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

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

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	\$5,000-\$100,000	20-50
Equipment	\$5,000	3-15	\$5,000	3-25
Infrastructure	All capitalized	Not depreciated	\$0-\$100,000	20-100

The State is trustee for approximately 9.3 million acres of land acquired through U.S. Government land grants in the early 1900's. The State acquired a substantial portion of this land at no cost and its fair market value at acquisition has not been reliably estimated. Accordingly, this land is not reported in the accompanying financial statements. A portion of the land that the State is trustee for has been sold and the buyers of the land have defaulted on the loans. The value of this land has been recorded at the sales price and properly included in the financial statements.

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

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

I. INVESTMENT EARNINGS

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

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J. SCHOLARSHIP ALLOWANCES

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

K. DEFERRED REVENUE

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

L. COMPENSATED ABSENCES

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

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

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

For sick leave policy, see Note 12.C.

M. LONG-TERM OBLIGATIONS

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

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

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N. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditure and related liabilities (assets), note disclosures, and if applicable, required supplementary information. The requirements of this Statement are effective for periods beginning after December 15, 2006. In applying the requirements of this standard, the State has provided expanded OPEB disclosures in the notes to the financial statements and the required supplementary information. There was no effect on the government-wide financial statements or the fund financial statements in this year of implementation.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes accounting and financial reporting standards for transactions in which a State sells or pledges future cash flows generated by collecting specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to transfers of assets and future revenues within the State. The requirements of this Statement are effective for periods beginning after December 15, 2006. The State has implemented the requirements of this standard, but they had no material effect on the financial statements.

GASB Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for OPEB and enhances information disclosed in the notes to the financial statements or the required supplementary information. The requirements of this Statement are effective for periods beginning after June 15, 2007. The State has implemented the requirements of this standard.

NOTE 2. DEPOSITS AND INVESTMENTS

A. DEPOSITS AND INVESTMENT POLICIES

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

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

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

The State Treasurer maintains external investment pools [the Local Government Investment Pool (LGIP), Local Government Investment Pool-Government, Local Government Investment Pool – Long Term, and the Central Arizona Water Conservation District]. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed.

State statutes authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital.

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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, real estate, private equity and opportunistic investments. Per ARS §38-719, no more than 80.00% of the ASRS' total assets may be invested at any given time in corporate stocks or equity equivalents, based on cost value of the stocks or equity equivalents irrespective of capital appreciation. No more than 5.00% of the voting stock of any one corporation may be owned. No more than 30.00% of the ASRS' assets may be invested in foreign equity securities, and those investments shall be made only by investment managers with demonstrated expertise in such investments. No more than 10.00% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank. No more than 1.00% of ASRS' assets may be invested in economic development projects authorized as eligible for such investment by the Arizona Department of Commerce. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per ARS §38-848, §38-803A(4), and §38-883A(4), the PSPRS, the EORP, and the CORP, respectively, may not invest at any given time more than 80.00% of the combined assets of the system or other plans that the fund manager 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 20.00% of the combined assets of the system or other plans that the fund manager manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation, or 5) an exchanged traded fund that is recommended by the chief investment officer of the system, that is registered under the Investment Company Act of 1940, and that is both traded on a public exchange and based on a publicly recognized index. Not more than 5.00% of the voting stock of any one corporation shall be owned by the system and other plans that the fund manager administers, except that this limitation does not apply to membership interests in limited liability companies.

The ABOR governs the investment policies of the Universities. The Universities are generally limited to investing their pooled operating funds and capital projects funds in collateralized certificates of deposit and repurchase agreements with commercial banks, U.S. Treasury securities and other Federal agency securities, or in the LGIP administered by the State Treasurer. 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 defining, developing, and implementing investment objectives, policies, and restrictions. However, if donors restrict the investments, ABOR policy requires the University to invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

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

B. CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. The State Treasurer, the Retirement Systems, and the Universities' deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. Surety collateral for the Universities and the Retirement Systems must be equal to at least 100.00% of the bank balance required to be collateralized (102.00% for the State Treasurer). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of U.S. Government obligations, State obligations, and obligations of counties and municipalities within the State. As of June 30, 2008, some State agencies have uncollateralized and uninsured deposits in the

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amount of \$463 thousand and \$1.402 million in deposits collateralized with securities held by the pledging financial institution's trust department or agent, but not in the State's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The State does not have a formal policy in regards to custodial credit risk for investments. As of June 30, 2008, the State had \$40.206 million in securities that were uninsured, not registered in the State's name and held by a counterparty or counterparty's trust department or agent but not in the State's name.

C. INTEREST RATE RISK

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

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

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

The Commission approves and contracts with different investment managers of fixed income equities in order to manage the exposure to interest rate risk with each different fund manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool. Beyond this requirement, the Commission does not have a formal policy.

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

Investment Type	Fair Value	Weighted Average Maturity (in years)
Bond mutual funds	\$ 6,763	5.50
Certificates of deposit	5,041	0.96
Commercial mortgage backed securities	4,871	31.31
Commercial paper	45,358	0.08
Corporate asset backed securities	187,752	0.68
Corporate collateralized mortgage obligations	27,819	17.29
Corporate notes & bonds	2,103,472	2.63
Government bonds	4,965	16.75
Government mortgage backed securities	42,641	16.62
Index linked government bonds	5,286	6.12
Money market mutual funds	61,569	0.07
Repurchase agreements	2,462,625	0.00
U.S. Agency Securities	3,831,033	1.16
U.S. Agency Securities-Full Faith	17,256	1.46
U.S. Agency Mortgage Backed Securities	1,193,318	17.49
U.S. Treasury Securities	1,245,585	1.29
Other	8,687	5.73
Total Debt Securities	\$ 11,254,041	3.04

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

Investment Type	Fair Value	Effective Duration (in years)
Asset backed securities	\$ 154,132	3.10
Collateralized mortgage obligations (CMO's) of government agencies	138,406	3.90
Commercial mortgage backed	423,709	3.90
Corporate bonds	1,692,490	3.80
Government agencies	963,399	3.90
Government bonds	1,118,674	3.00
Government mortgage backed	2,171,528	3.60
Non-government backed CMO's	195,745	2.70
Total Debt Securities	<u>\$ 6,858,083</u>	3.58

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

Investment Type	Fair Value	Investment Maturities (in years)					
		Less than 1	1-5	6-10	11-15	16-20	More than 20
Corporate bonds	\$ 430,407	\$ 15,274	\$ 60,884	\$ 64,047	\$ 18,491	\$ 60,150	\$ 211,561
Collateralized bond obligations (CBO's)	47,402	-	12,548	-	13,599	5,470	15,785
Collateralized debt obligations (CDO's)	10,191	-	-	6,322	-	-	3,869
International fixed income fund	12,583	-	-	12,583	-	-	-
Money market mutual funds	177,323	177,323	-	-	-	-	-
Repurchase agreements	81,904	81,904	-	-	-	-	-
U.S. Agency Securities	987,080	44,047	596,306	97,372	74,365	57,984	117,006
U.S. Treasury Securities	3,438	79	825	223	372	1,006	933
Other investments	17,569	639	3,676	10,142	775	550	1,787
Total Debt Securities	<u>\$ 1,767,897</u>	<u>\$ 319,266</u>	<u>\$ 674,239</u>	<u>\$ 190,689</u>	<u>\$ 107,602</u>	<u>\$ 125,160</u>	<u>\$ 350,941</u>

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

<u>Interest Rate Terms</u>	<u>Corporate Securities</u>	<u>U.S. Agency Securities</u>	<u>Total</u>
LIBOR plus/minus fixed basis point which resets from monthly to quarterly.	\$ 1,469,492	\$ 583,560	\$ 2,053,052
Corporate asset backed securities with coupon tied to LIBOR plus/minus fixed basis point which resets monthly.	158,366	-	158,366
Mortgage backed securities - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value.	-	1,264,312	1,264,312
Callable step-up notes - where on certain specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may go up faster than this increase in the coupon interest rate.	-	9,230	9,230
Other securities with high sensitivity to rate changes.	-	118,794	118,794
Total	<u>\$ 1,627,858</u>	<u>\$ 1,975,896</u>	<u>\$ 3,603,754</u>

D. CREDIT RISK

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

The State statutes and the State Treasurer's investment policy require that commercial paper must be rated by at least two nationally recognized statistical rating organizations and that the ratings assigned by at least two of the rating organizations be of the two highest rating categories for short-term obligations. Corporate bonds, debentures, and notes must carry a minimum Baa or better rating from Moody's Investor Service (Moody's) or a BBB or better rating from Standard and Poor's Rating Service (S & P). For investments not rated by Moody's, Fitch rating information is used. There is no statute or investment policy on ratings or credit quality for obligations issued by the U.S. Government or its agencies or repurchase agreements. The underlying securities for repurchase agreements must be explicitly guaranteed by the U.S. Government.

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

The PSPRS, the EORP, and the CORP's investment policy is specific as to permissible credit quality ranges, exposure levels within 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 investments must have a minimum quality rating of Baa3 by Moody's and BBB- by S & P at the time of purchase. Commercial paper must have a minimum quality rating of P-1 by Moody's and A1 by S & P at the time of purchase. The portion of the bond portfolio in investments rated Baa3 through Baa1 by Moody's and BBB- through BBB+ by S & P must be 20.00% or less of the fair value of the fixed income portfolio.

The Universities' policies mirror that of the ABOR, except for ASU which is more stringent than that of the ABOR in that it does not permit investment grade corporate bonds in the operating funds. Also, ASU's capital projects and bond debt service funds are invested by the bond trustee in accordance with the applicable financing indenture. In addition, when investing endowment funds, U of A policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's, at the time of purchase. Beyond the requirements established by the ABOR, NAU does not have a formal policy with respect to credit risk.

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 Ba by Moody's or BB by S & P, except for fixed income managers who have been hired to manage funds in a specialized manner (high yield).

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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, 2008. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	A1	Not Rated
Asset backed securities	\$ 357,500	\$ 337,134	\$ 3,575	\$ 15,168	\$ 1,007	\$ 3	\$ 613	\$ -	\$ -
Bond mutual funds	6,763	-	-	-	-	-	-	-	6,763
Certificates of deposit	5,041	-	5,041	-	-	-	-	-	-
CBO's	47,402	-	-	24,947	12,548	9,907	-	-	-
CDO's	38,339	28,148	-	6,322	3,869	-	-	-	-
CMO's of government sponsored entities	138,406	138,385	21	-	-	-	-	-	-
Commercial mortgage backed securities	428,580	418,913	1,499	1,122	-	-	7,046	-	-
Commercial paper	45,358	-	-	-	-	-	-	45,358	-
Corporate notes & bonds	4,208,242	467,184	843,557	2,039,730	462,921	53,208	332,587	-	9,055
Government agencies	963,399	897,174	30,299	19,532	1,168	1,309	13,715	-	202
Government bonds	1,118,674	1,110,108	681	1,277	40	-	-	-	6,568
Government mortgage backed securities	2,206,042	2,205,919	-	-	-	-	-	-	123
International fixed income fund	12,583	-	12,583	-	-	-	-	-	-
Money market mutual funds	238,892	195,590	-	-	-	-	-	-	43,302
Mortgages	28,537	21,987	3,805	2,745	-	-	-	-	-
Non-government backed CMO's	196,904	196,381	109	46	4	-	-	-	364
U.S. Agency Mortgage Backed Securities	740,839	740,839	-	-	-	-	-	-	-
U.S. Agency Securities	4,629,097	2,544,859	6,950	-	-	-	-	2,077,180	108
Other investments	26,256	5,636	1,213	1,526	-	-	-	-	17,881
Total	\$ 15,436,854	\$ 9,308,257	\$ 909,333	\$ 2,112,415	\$ 481,557	\$ 64,427	\$ 353,961	\$ 2,122,538	\$ 84,366

E. CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the U of A's, and the Commission's investment policies state that no more than 5.00% of their investments may be invested in securities issued by any one institution, agency, or corporation, other than securities issued as direct obligations of or are fully guaranteed by the U.S. Government or mortgage backed securities and agency debentures issued by federal agencies. The PSPRS, the EORP, and the CORP's investment policy states that no more than 5.00% of the combined assets of the system or other plans that the fund manager 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. ASU and NAU have no formal policy in regards to the concentration of credit risk. At June 30, 2008, more than 5.00% of the Governmental Activities' total investments were held in the following single issues (expressed in thousands):

Issuer Description	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 938,831	14.14%
Federal Home Loan Bank	742,056	11.18%
Federal National Mortgage Association	686,168	10.33%

At June 30, 2008, more than 5.00% of the Business-type Activities' total investments were held in the following single issue (expressed in thousands):

Issuer Description	Fair Value	Percentage
Federal Home Loan Bank	\$ 203,804	8.00%

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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 is the primary State agency that has foreign currency risk. Per ARS §38-719, no more than 30.00% of the ASRS assets may be invested in foreign equity securities and those investments shall be made only by investment managers with demonstrated expertise in those investments. The ASRS has not adopted a formal policy that is more restrictive. The following table summarizes the State's foreign currency risk as of June 30, 2008 (expressed in thousands):

Currency	Foreign Currency Risk by Investment Type at Fair Value				
	Short Term	Fixed Income	Equities	Other Investments	Total
Australian Dollar	\$ 2,815	\$ -	\$ 98,308	\$ -	\$ 101,123
British Pound Sterling	(768)	-	621,690	-	620,922
Canadian Dollar	(776)	-	23,458	-	22,682
Czech Koruna	-	-	6,018	-	6,018
Danish Krone	30	-	36,505	-	36,535
Euro Currency	3,105	3,039	1,145,797	4,084	1,156,025
Hong Kong Dollar	(1,010)	-	62,714	32	61,736
Japanese Yen	11,083	-	815,235	-	826,318
Malaysian Ringit	-	-	622	-	622
New Mexican Peso	-	-	5,067	-	5,067
New Taiwan Dollar	-	-	16,003	-	16,003
New Zealand Dollar	314	2,884	10,860	-	14,058
Norwegian Krone	91	-	23,373	-	23,464
South African Rand	-	-	13,050	-	13,050
Singapore Dollar	131	-	47,807	-	47,938
South Korean Won	-	-	24,664	-	24,664
Swedish Krona	36	-	47,407	-	47,443
Swiss Franc	700	-	320,785	-	321,485
Thailand Baht	-	-	1,233	-	1,233
Various mutual funds	-	17,147	75,754	7,172	100,073
Total	\$ 15,751	\$ 23,070	\$ 3,396,350	\$ 11,288	\$ 3,446,459

G. UNEMPLOYMENT COMPENSATION

Pursuant to Section 904 of the Social Security Act (42 U.S.C. §1104), unemployment insurance contributions from Arizona employers are deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States. The cash on deposit in the trust fund account is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the trust fund account. The Unemployment Compensation Fund, reported as a major enterprise fund, has been established for this purpose.

H. SECURITIES LENDING

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

1. Industrial Commission

State statutes and the Commission's policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, Northern Trust, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2008. Northern

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Trust's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102.00% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105.00% of the market value of securities loaned plus accrued interest. The market value at June 30, 2008 for loaned securities collateralized by cash and non-cash collateral was \$46.588 million and \$799 thousand, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at \$47.810 million and \$823 thousand, respectively at June 30, 2008. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Deposit and investment risk disclosures are only reported for collateral received on securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 100 days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 36 days as of June 30, 2008. Cash collateral may also be invested separately in term loans, in which case the investments match the loan term. Cash open loans can be terminated on demand by either the lender or the borrower and there were no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net Assets. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2008, the Commission had \$47.810 million outstanding as payable for securities lending.

2. Arizona State Retirement System

The ASRS is permitted by ARS §38-715(D) (3), to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with counterparts to loan securities and have the same securities redelivered at a later date. All securities are eligible for loan (U.S. fixed income securities, U.S. equities, and international equities) with a higher percentage of U.S. Treasuries on loan than most other security types. It is the policy of the ASRS to receive as collateral at least 102.00% of the market value of the loaned securities and maintain collateral at no less than 100.00% for the duration of the loan. At year-end, the ASRS has no credit risk exposure to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. Any cash collateral received is invested in short-term investments. The maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral received are classified as an asset on the Statement of Fiduciary Net Assets. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2008, the fair value of securities on loan was \$4.6 billion. The associated fair value of the invested collateral was \$4.8 billion, of which \$3.8 billion was invested cash collateral. Securities lending payable at June 30, 2008 was \$3.8 billion. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default.

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

The PSPRS, the EORP, and the CORP are permitted by ARS Title 38, Chapter 5, Articles 4, 3, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102.00% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2008, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$1.0 billion, \$60.132 million, and \$234.109 million, respectively. At June 30, 2008, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were \$1.0 billion, \$61.810 million, and \$240.882 million, respectively.

4. University of Arizona

During the fiscal year, the U of A elected to discontinue participation in securities lending. This investment option remains available to the U of A.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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I. DERIVATIVES

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

- It has (1) one or more underlyings and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and in some cases, whether or not a settlement is required.
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- Its terms require or permit net settlement, it can readily be settled net by means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

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

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

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

Generally, derivatives are subject to both interest rate risk and credit risk. The derivatives utilized by ASRS internal investment managers typically have no greater interest rate risk than their physical counterparts, and in many cases, are offset by exposure elsewhere in the portfolio. As of June 30, 2008, the ASRS had \$680.000 million in temporary investments held as collateral for equity and fixed income derivatives which may have a positive or negative notional value.

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

Refer to Note 7.A.3.c. for information on derivatives utilized by ASU.

J. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS

The State Treasurer issues a separately published Annual Financial Report. The report provides additional information relating to the State Treasurer's total investing activities, including the investment trust funds. A copy of the State Treasurer's Office Annual Financial Report can be obtained from their office location or website at:

Arizona State Treasurer's Office
1700 W. Washington St.
Phoenix, Arizona 85007-2812
(602) 604-7800 or (877) 365-8310
<http://www.aztreasury.gov>

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

STATE OF ARIZONA
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 JUNE 30, 2008

NOTE 3. RECEIVABLES/DEFERRED REVENUE

A. TAXES RECEIVABLE

The following table summarizes taxes receivable at June 30, 2008 (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Unemployment Compensation Fund	Industrial Commission Special Fund	Non-Major Governmental Funds	Government-wide Total
Sales	\$ 460,154	\$ -	\$ -	\$ -	\$ 2,104	\$ 462,258
Income – individual and corporate	175,257	-	-	-	-	175,257
Motor vehicle and fuel	-	69,819	-	-	-	69,819
Luxury	7,823	-	-	-	23,044	30,867
Unemployment	-	-	65,980	-	-	65,980
Other	-	-	-	4,696	-	4,696
Gross taxes receivable	643,234	69,819	65,980	4,696	25,148	808,877
Allowance for uncollectible taxes	(146,742)	-	-	-	-	(146,742)
Net Taxes Receivable	<u>\$ 496,492</u>	<u>\$ 69,819</u>	<u>\$ 65,980</u>	<u>\$ 4,696</u>	<u>\$ 25,148</u>	<u>\$ 662,135</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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B. DEFERRED REVENUE

At June 30, 2008, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

Current Deferred Revenue for Governmental Funds:	<u>Unavailable</u>	<u>Unearned</u>	<u>Total Deferred Revenue</u>
General Fund:			
Delinquent sales tax	\$ 95,967	\$ -	\$ 95,967
Delinquent income tax	109,899	-	109,899
Tobacco settlement	57,002	-	57,002
Child support administrative reimbursements	4,140	-	4,140
Advance insurance premium taxes	-	45,307	45,307
Advance land lease payments	-	291	291
Public assistance overpayments	1,361	-	1,361
Vaccine & commodity food supplement	-	2,186	2,186
Advance county acute & long term care payments	-	21,878	21,878
Federal grants	246,401	-	246,401
Other	-	136	136
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Loans & notes receivable for asset purchases and construction	10,922	-	10,922
Land Endowments Fund:			
Land sales receivable	136,977	-	136,977
Land leases receivable	16,918	-	16,918
Advance land lease payments	-	19,919	19,919
Non-Major Funds:			
Public assistance overpayments	999	-	999
Advance payments for Hawaii/Arizona PMMIS Alliance	-	809	809
Other	-	44	44
Total Current Deferred Revenue for Governmental Funds	<u>680,586</u>	<u>90,570</u>	<u>771,156</u>
Noncurrent Deferred Revenue for Governmental Funds:			
General Fund:			
Advance land lease payments	-	5,424	5,424
Land Endowments Fund:			
Land sales receivable	894,411	-	894,411
Advance land lease payments	-	51,771	51,771
Total Noncurrent Deferred Revenue for Governmental Funds	<u>894,411</u>	<u>57,195</u>	<u>951,606</u>
Total Current and Noncurrent Deferred Revenue for Governmental Funds	<u>\$ 1,574,997</u>	<u>\$ 147,765</u>	<u>\$ 1,722,762</u>
Current Deferred Revenue for Proprietary Funds:			
Universities:			
Unexpended cash advances received		\$ 36,248	
Auxiliary sales and services		6,029	
IBM lease related to acquisition of research park		4,900	
Student tuition and fees		46,275	
Other deferred revenue		1,751	
Deposits		1,456	
Non-Major Funds:			
Policyholders' advance premiums		8,047	
Magazine subscriptions		2,974	
Other		71	
Total Current Deferred Revenue for Proprietary Funds		<u>\$ 107,751</u>	
Noncurrent Deferred Revenue for Proprietary Funds:			
Universities:			
IBM lease related to acquisition of research park		\$ 24,970	
Total Noncurrent Deferred Revenue for Proprietary Funds		<u>\$ 24,970</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, 2008 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 2,368,725	\$ 269,921	\$ (124,773)	\$ 15	\$ 2,513,888
Construction in progress	2,121,158	865,250	(267,491)	939	2,719,856
Infrastructure	9,855,141	254,652	(8,384)	(1)	10,101,408
Total Non-depreciable Capital Assets	14,345,024	1,389,823	(400,648)	953	15,335,152
Depreciable capital assets:					
Buildings	1,677,197	35,124	(3,731)	1,310	1,709,900
Improvements other than buildings	138,329	1,836	(634)	(3,285)	136,246
Equipment	732,690	72,938	(43,732)	10,342	772,238
Infrastructure	6,609	509	-	-	7,118
Total Depreciable Capital Assets	2,554,825	110,407	(48,097)	8,367	2,625,502
Less accumulated depreciation for:					
Buildings	(506,242)	(39,918)	2,233	(2,792)	(546,719)
Improvements other than buildings	(67,729)	(4,016)	419	14	(71,312)
Equipment	(509,107)	(69,635)	40,817	1,489	(536,436)
Infrastructure	(4,354)	(97)	-	1	(4,450)
Total Accumulated Depreciation	(1,087,432)	(113,666)	43,469	(1,288)	(1,158,917)
Total Depreciable Capital Assets, Net	1,467,393	(3,259)	(4,628)	7,079	1,466,585
Total Governmental Activities Capital Assets, Net	<u>\$ 15,812,417</u>	<u>\$ 1,386,564</u>	<u>\$ (405,276)</u>	<u>\$ 8,032</u>	<u>\$ 16,801,737</u>
Business-type Activities:					
Non-depreciable capital assets:					
Land	\$ 153,038	\$ 24,327	\$ (10,882)	\$ 130	\$ 166,613
Construction in progress	100,373	160,689	(30,941)	(104,891)	125,230
Collections	35,311	1,837	(21,295)	-	15,853
Total Non-depreciable Capital Assets	288,722	186,853	(63,118)	(104,761)	307,696
Depreciable capital assets:					
Buildings	3,437,270	205,066	(24,395)	95,991	3,713,932
Improvements other than buildings	3,600	1,211	-	-	4,811
Equipment	1,209,996	109,475	(29,756)	(7,190)	1,282,525
Infrastructure	326,380	4,206	(216)	15,898	346,268
Total Depreciable Capital Assets	4,977,246	319,958	(54,367)	104,699	5,347,536
Less accumulated depreciation for:					
Buildings	(1,226,567)	(110,700)	10,972	(4,509)	(1,330,804)
Improvements other than buildings	(2,385)	(115)	-	(1)	(2,501)
Equipment	(830,174)	(81,865)	25,012	4,406	(882,621)
Infrastructure	(106,482)	(11,231)	187	77	(117,449)
Total Accumulated Depreciation	(2,165,608)	(203,911)	36,171	(27)	(2,333,375)
Total Depreciable Capital Assets, Net	2,811,638	116,047	(18,196)	104,672	3,014,161
Total Business-type Activities Capital Assets, Net	<u>\$ 3,100,360</u>	<u>\$ 302,900</u>	<u>\$ (81,314)</u>	<u>\$ (89)</u>	<u>\$ 3,321,857</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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Refer to Note 9.B. for explanation of Business-type Activities restatement.

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

General government	\$ 23,825
Health and welfare	16,917
Inspection and regulation	1,771
Education	656
Protection and safety	45,921
Transportation	17,189
Natural resources	7,387
Total Governmental Activities	<u>\$ 113,666</u>

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

Lottery	\$ 316
Industrial Commission Special Fund	1,288
Universities	200,458
Other	1,849
Total Business-type Activities	<u>\$ 203,911</u>

NOTE 5. PENSION BENEFITS

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

A. PARTICIPATING EMPLOYERS

The number of participating government employers as of June 30, 2008 is shown below:

Employer	ASRS	PSPRS	EORP	CORP
Cities and towns	77	139	21	-
Counties and county agencies	15	24	15	14
State	1	1	1	1
Special districts	86	56	-	-
School districts	235	-	-	-
Charter schools	159	-	-	-
Community college districts	10	-	-	-
Dispatchers	-	-	-	8

B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS

For the ASRS, the employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Pension benefit and refund payments are recognized when due and payable in accordance with the terms of the plan.

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

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NOTES TO THE FINANCIAL STATEMENTS
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C. FUNDING POLICY

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

Cost-sharing plans

For the year ended June 30, 2008, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 9.10% and 8.05% of the members' annual covered payroll, respectively. The State's contributions to the ASRS for the years ended June 30, 2008, 2007, and 2006 were \$162.121 million, \$142.382 million, and \$100.254 million, respectively, for the primary government which were equal to the required contributions for these years.

In addition, active EORP members were required by statute to contribute 7.00% of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 17.99% of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2008, 2007, and 2006 were \$2.230 million, \$1.789 million, and \$2.140 million, respectively, which were equal to the required contributions for these years.

Agent plans

For the year ended June 30, 2008, active PSPRS members were required by statute to contribute 7.65% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 9.60 - 27.96%. Active CORP members were required by statute to contribute 7.96% of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 5.63 - 5.89%.

D. ANNUAL PENSION COST

The State's annual pension costs, pension contributions made, and excess other post-employment benefit (OPEB) contributions applied to pensions (see Note 6.A. and B. for explanation) for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2008, is as follows (expressed in thousands):

	Annual Pension Costs	Pension Contributions Made	
		Required Contributions	Excess OPEB Contributions
PSPRS	\$ 25,879	\$ 25,879	\$ 600
CORP	26,405	26,405	2,603

The State's annual pension cost and the percentage of annual pension cost contributed to each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2008, is as follows. The preceding years contain both pensions and OPEB information.

(expressed in thousands)

	Fiscal Year Ended	Annual Pension/ OPEB Cost	Percentage of Annual Cost Contributed
PSPRS	6/30/08	\$ 25,879	102%
	6/30/07	19,993	100%
	6/30/06	15,878	100%
CORP	6/30/08	26,405	110%
	6/30/07	17,494	100%
	6/30/06	17,472	100%

E. FUNDED STATUS AND FUNDING PROGRESS

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

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Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as Percentage of Covered Payroll
PSPRS	6/30/2008	\$ 547,255	\$ 824,620	\$ (277,365)	66.4%	\$ 101,422	(273.5)%
CORP	6/30/2008	755,559	869,342	(113,783)	86.9%	376,819	(30.2)%

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

The State’s actuarial methods and significant assumptions for each of the agent, multiple-employer defined benefit pension plans for the most recent actuarial valuation as of 6/30/08 and actuarial valuation as of 6/30/06 that was used to determine the fiscal year 2008 annual required contribution are as follows:

	PSPRS 6/30/06	CORP 6/30/06	PSPRS 6/30/08	CORP 6/30/08
Actuarial valuation date	6/30/06	6/30/06	6/30/08	6/30/08
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit	projected unit credit
Actuarial assumptions:				
Investment rate of return	8.50%	8.50%	8.50%	8.50%
Projected salary increases includes inflation at	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%
Cost-of-living adjustments	5.00%	5.00%	5.00%	5.00%
Amortization method	None	None	None	None
Remaining amortization	level percent open	level percent open	level percent closed for unfunded actuarial accrued liability, open for excess	level percent closed for unfunded actuarial accrued liability, open for excess
Asset valuation method	30 years for unfunded actuarial accrued liability, 20 years for excess smoothed market value	30 years for unfunded actuarial accrued liability, 20 years for excess smoothed market value	28 years for unfunded actuarial accrued liability, 20 years for excess smoothed market value	28 years for unfunded actuarial accrued liability, 20 years for excess smoothed market value

G. UNIVERSITIES’ RETIREMENT PLANS

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

The Arizona State Legislature establishes and may amend active plan members’ and the Universities’ contribution rates. For the year ended June 30, 2008, plan members and the three Universities were each required by statute to contribute an amount equal to 7.00% of an employee’s compensation, except for an 8.55% contribution for the ASRS defined contribution plan.

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Contributions to these plans for the year ended June 30, 2008, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	\$ 30,358	\$ 30,358	\$ 60,716
VALIC	3,240	3,240	6,480
Fidelity	12,602	12,602	25,204
ASRS	72	63	135

NOTE 6. OTHER POST-EMPLOYMENT BENEFITS

A. PLAN DESCRIPTION

Cost-sharing plans

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

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

Agent plans

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

B. CONTRIBUTIONS, BENEFITS, AND REFUND PAYMENTS

Cost-sharing plan

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

Agent plans

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

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C. FUNDING POLICY

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

Cost-sharing plan

For the year ended June 30, 2008, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.50% of the members' annual covered payroll for LTD. In addition to the 0.50% for LTD, the State also contributed 1.05% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2008, 2007, and 2006 were \$10.070 million, \$9.429 million, and \$8.688 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, 2008, 2007, and 2006 were \$21.146 million, \$19.802 million, and \$19.634 million, respectively, for the primary government which were equal to the required contributions for these years.

Agent plans

For the year ended June 30, 2008, the PSPRS participating State agencies were required to contribute at actuarially determined rates of 0.88 – 3.10% of annual covered payroll. The CORP participating State agencies were required to contribute at actuarially determined rates of 1.06 – 1.15% of annual covered payroll.

D. ANNUAL OPEB COST

The State's annual OPEB costs and contributions made for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2008, is as follows (expressed in thousands):

	Annual OPEB Costs	OPEB Contributions Made
PSPRS	\$ 2,350	\$ 1,750
CORP	4,301	1,698

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2008, is as follows. Information about preceding years will be added over the next two years (expressed in thousands):

	Fiscal Year Ended	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation
PSPRS	6/30/08	\$ 2,350	74.5%	\$ 600
CORP	6/30/08	4,301	39.5%	2,603

E. FUNDED STATUS AND FUNDING PROGRESS

The State's funded status for each of the agent, multiple-employer defined benefit post-employment plans, as of the year ended June 30, 2008, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as Percentage of Covered Payroll
PSPRS	6/30/2008	-	\$ 30,584	\$ (30,584)	0.0%	\$ 101,422	(30.2)%
CORP	6/30/2008	-	40,596	(40,596)	0.0%	376,819	(10.8)%

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

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

F. ACTUARIAL METHODS AND ASSUMPTIONS

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

The State’s actuarial methods and significant assumptions for each of the agent, multiple-employer defined post-employment plans for the most recent actuarial valuation as of 6/30/08 and actuarial valuation as of 6/30/06 that was used to determine the fiscal year 2008 annual required contribution are as follows:

	PSPRS	CORP	PSPRS	CORP
	6/30/06	6/30/06	6/30/08	6/30/08
Actuarial valuation date	6/30/06	6/30/06	6/30/08	6/30/08
Actuarial cost method	projected unit credit	projected unit credit	projected unit credit	projected unit credit
Actuarial assumptions:				
Investment rate of return	8.50%	8.50%	8.50%	8.50%
Projected salary increases includes inflation at	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%	5.50 – 8.50%
Cost-of-living adjustments	5.00%	5.00%	5.00%	5.00%
Amortization method	None	None	None	None
	level percent open	level percent open	level percent closed for unfunded actuarial accrued liability, open for excess	level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization	30 years for unfunded actuarial accrued liability, 20 years for excess	30 years for unfunded actuarial accrued liability, 20 years for excess	28 years for unfunded actuarial accrued liability, 20 years for excess	28 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	not applicable	not applicable	not applicable	not applicable

NOTE 7. LONG-TERM OBLIGATIONS

A. REVENUE BONDS

Governmental Activities

1. Arizona Department of Transportation

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal, state, and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.5 billion. During the year, Highway Revenue Bonds totaling \$193.950 million were issued to finance portions of the ADOT’s Five Year Transportation Facilities Construction Program and pay the costs of issuing the bonds.

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

The ADOT has pledged future motor vehicle and related fuel fees and taxes to repay \$1.6 billion in outstanding Highway Revenue Bonds issued since 1993. Proceeds from the bonds finance portions of the ADOT’s Five Year Transportation Facilities

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Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2033. The total principal and interest remaining to be paid on the bonds is \$2.5 billion. Principal and interest paid for the current year and total pledged revenues were \$136.200 million and \$658.600 million, respectively. The annual principal and interest payments on the bonds required 20.70% of the pledged revenues.

The Maricopa County Regional Area Road Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the ADOT. The bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. There were no Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year. During the year, Transportation Excise Tax Revenue Bonds totaling \$370.000 million were issued to pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona and the costs of issuing the bonds.

On September 21, 2007, the ADOT adopted a Master Resolution relating to Transportation Excise Tax Revenue Bonds. Also, on September 21, 2007, the ADOT adopted the First Supplemental Resolution authorizing the issuance of the first series of bonds under the Master Resolution in an amount not to exceed \$370.000 million. No debt service reserve is required for the outstanding bonds.

Transportation Excise Tax Revenue Bonds aggregating \$200.475 million are subject to redemption prior to their maturity dates at the option of the ADOT in whole or in part, at any time, on or after July 1, 2017. These bonds may be redeemed at par, plus accrued interest to the date fixed for redemption. Transportation Excise Tax Revenue Bonds aggregating \$150.480 million are not subject to redemption.

The ADOT has pledged future transportation excise taxes to repay \$350.955 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, Arizona. 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 \$527.300 million. Principal and interest paid for the current year and total pledged revenues were \$29.700 million and \$253.700 million, respectively. The annual principal and interest payments on the bonds required 11.70% 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 the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2008 totaled \$212.880 million.

2. School Facilities Board

On October 3, 2007, the SFB issued State School Trust Revenue Refunding Bonds Series 2007 (the Series 2007 Bonds) for \$82.880 million. The Series 2007 Bonds include \$82.880 million of serial bonds with interest rates ranging from 4.00% to 5.00% and maturity dates ranging from 2015 to 2018. The Series 2007 Bonds are not subject to redemption prior to their stated maturity dates. The SFB realized net proceeds of \$86.547 million after receipt of net issue premium of \$5.264 million and payment of \$1.597 million for underwriters' discount, bond insurance, and other issuance costs. In addition, \$12.304 million of funds held in reserve for the Series 2004A State School Trust Revenue Bonds were used to complete the refunding. The net proceeds, along with the remaining Series 2004A debt service reserve funds, were used to advance-refund \$88.630 million of the Series 2004A State School Trust Revenue Bonds with a total outstanding principal balance prior to the refunding of \$190.970 million. The advance-refunding resulted in a debt service savings of \$5.917 million and a net present value benefit of \$2.252 million (difference between the present values of the old debt and new debt service payments) for the SFB. The advance-refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.853 million. This loss on refunding is being amortized using the straight-line method as a charge to interest expense. The refunded maturities of the Series 2004A Bonds will be paid by investments held in an irrevocable trust with a fair value of \$98.851 million. As a result, the refunded debt is considered to be defeased and is not included in the accompanying financial statements.

In prior fiscal years, the SFB refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together

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with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the SFB at June 30, 2008 totaled \$535.310 million.

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, State school trust revenue bonds, and State school trust revenue refunding bonds outstanding at June 30, 2008. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of \$72.263 million are not available to pay debt service on the State school trust revenue bonds and State school trust revenue refunding bonds per the debt documents. During fiscal year 2008, total expendable trust revenues exceeded the maximum allowable amount to pay debt service by \$101.411 million. This excess is not included in total pledged revenues. At June 30, 2008, pledged revenues totaled \$718.091 million of which 12.14% (\$87.178 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2021 is \$1.0 billion.

Business-Type Activities

3. Universities

a. University of Arizona

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

On January 15, 2008, the U of A sold System Revenue Bonds Series 2008A (2008A Bonds) for \$43.105 million dated January 30, 2008. The 2008A Bonds include \$20.915 million of serial bonds with interest rates ranging from 4.00% to 5.00% and maturity dates ranging from 2008 to 2027. The 2008A Bonds also include three term bonds consisting of \$5.420 million with an interest rate of 4.25% due June 1, 2030; \$6.180 million with an interest rate of 5.00% due June 1, 2033; and \$10.590 million with an interest rate of 4.50% due June 1, 2040. The 2008A Bonds with maturity on or after June 1, 2019, are subject to optional redemption without premium. The 2008A Bonds with maturity on June 1, 2030, June 1, 2033, and June 1, 2040 (the Term Bonds) are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2008A Bonds sold at a premium of \$1.349 million. The U of A realized net proceeds of \$42.713 million after payment of \$1.741 million for issuance costs, underwriter discounts, and interest rate management fees. The net proceeds were used to finance the Deferred Renovation, Building Renewal and Infrastructure Project, the Student Recreation Center Expansion Project, the Tree Ring Laboratory Project, and the Hazardous Waste Facility Enclosure Project.

On April 10, 2008, the U of A sold System Revenue Refunding Bonds Series 2008B (2008B Bonds) for \$18.090 million dated April 30, 2008. The 2008B Bonds include \$18.090 million of serial bonds with interest rates ranging from 3.50% to 4.50% and maturity dates ranging from 2009 to 2018. The 2008B Bonds sold at a premium of \$489 thousand. The U of A realized net proceeds of \$18.397 million after payment of \$182 thousand for issuance costs and underwriter discounts. The net proceeds were used to redeem the outstanding System Revenue Bonds Series 1998 totaling \$17.970 million. The redemption generated a net present value benefit of \$1.069 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The redemption reduced the U of A's debt service by \$1.064 million. The redemption resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$395 thousand. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2018 using the straight-line method.

In fiscal year 2003, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2008, the outstanding principal balance of the refunded bonds was \$3.025 million, which will be paid by investments

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held in an irrevocable trust with a fair value of \$3.149 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

In fiscal year 2005, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 1998 and the remaining principal balance of System Revenue Bonds Series 2000A. The System Revenue Bonds Series 1998 outstanding principal was redeemed on June 1, 2008. At June 30, 2008, the total outstanding principal balance of the refunded System Revenue Bonds Series 2000A was \$14.210 million, which will be paid by investments held in an irrevocable trust with a total fair value of \$14.665 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue and system revenue refunding bonds outstanding at June 30, 2008. 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, 2008, pledged revenues totaled \$632.400 million, of which 5.70% (\$36.200 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the system revenue and system revenue refunding bonds through final maturity of June 1, 2040 is \$477.200 million.

b. Northern Arizona University

On July 24, 2007, the NAU sold System Revenue Bonds Series 2007 (2007 Bonds) for \$38.695 million dated August 7, 2007 for construction of a new residence hall, expansion of a multi-use dining and activity facility, and other qualified capital projects. The 2007 Bonds include \$19.620 million of serial bonds with interest rates ranging from 4.25% to 5.00% and maturity dates ranging from June 1, 2008 to June 1, 2027. The 2007 Bonds also include \$19.075 million of term bonds, with an interest rate of 5.00% and maturing on June 1, 2032 and 2037 and are subject to annual sinking fund contributions. The bonds maturing on or after June 1, 2018 are subject to optional redemption without premium on June 1, 2017. The 2007 Bonds were sold with net original issue premium of \$1.226 million. The NAU realized net proceeds of \$39.503 million after payment of \$418 thousand for issuance costs, underwriter discounts, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The 2007 Bonds have an average interest rate of 4.93%.

In prior years, the NAU defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in the sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2008, \$41.190 million of such bonds outstanding are considered defeased.

The NAU has pledged portions of its gross revenues towards the payment of debt related to various student housing and senior lien system revenue bonds outstanding at June 30, 2008. The bonds generally provide financing for various capital projects of the NAU. These pledged revenues include student tuition and fees, certain auxiliary enterprise revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2008, pledged revenues totaled \$143.700 million, of which 11.90% (\$17.100 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the system revenue bonds through final maturity of June 1, 2040 is \$253.600 million.

c. Arizona State University

At June 30, 2008, the ASU held a combination of fixed and variable rate bonds. The ASU's fixed rate bonded debt consists of various issues of system revenue bonds that are generally callable at a prescribed date with interest payable semi-annually. Certain system revenue bonds of the ASU were defeased through advance-refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all such bonds outstanding at June 30, 2008 was \$46.900 million.

The ASU issued \$103.680 million of Variable Rate Demand System Revenue Refunding Bonds, Series 2008A and 2008B (2008 Bonds), to refund the outstanding 2003 Variable Rate Demand System Revenue Bonds totaling \$103.000 million in June 2008. The net proceeds of \$103.000 million, after the net deduction of \$680 thousand for underwriting fees and other issuance costs,

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were used to call the 2003 Variable Rate Demand System Revenue Bonds. Both series have a final maturity date of July 1, 2034. Both series bear interest at a weekly rate not to exceed 12.00% per annum based upon prevailing market conditions, as determined by the respective remarketing agents. The bonds are subject to conversion, at the option of the ABOR on behalf of the ASU, to a different or alternate adjustable rate mode, or a fixed rate pursuant to the bond indenture. The interest rate in effect on June 30, 2008 was 1.45% for the Series 2008A and 1.53% for the Series 2008B bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice to the remarketing agents. To provide credit and liquidity support for the bonds, the ASU entered into an Irrevocable Letter of Credit and Reimbursement Agreement (LOC) with Lloyds TSB Bank, PLC, upon execution of the refunding bonds. The LOC expires on June 18, 2009 and, upon request by the ASU and approval by the Bank, may be extended for at least one year. Assuming all of the Series 2008A and Series 2008B Bonds are not resold within 90 days, the ASU would be responsible to make quarterly installment principal payments of \$5.200 million over a five-year period, plus interest to be calculated as established in the letter of credit. The ASU has agreed to pay TSB Bank, PLC, an annual commitment fee for the letter of credit of .50% per annum on the stated amount which consists of outstanding principal of the bonds, plus 51 days of interest, at an assumed rate of 12.00% per annum.

Effective January 1, 2007, the ASU entered into a swap agreement on \$103.000 million, notional amount, relating to the 2008 Bonds. The \$103.000 million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated. The notional amount under the swap decreases as principal payments are made on the 2008 Bonds. The intention of the swap was to effectively change the variable rate interest on the 2008 Bonds to a synthetic fixed rate. The swap agreement expires on July 1, 2034. Under the terms of the swap agreement, the ASU pays the counterparty interest calculated at a fixed rate of 3.91% and receives payments from the counterparty based on the SIFMA Municipal Swap Index set weekly. The SIFMA rate at June 30, 2008 was 1.55%. At June 30, 2008, 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	(1.55)
Net interest rate swap payments		2.36
Variable-rate bond coupon payments	Spread to SIFMA	1.49
Synthetic fixed interest rate on bonds		3.85

As of June 30, 2008, the swap had a fair value of \$(2.300) million, which represents the cost to the ASU to terminate the swap. 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.

As of June 30, 2008, the ASU was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the ASU would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch, A by Standard & Poor's, and A1 by Moody's Investor Services as of June 30, 2008. 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.

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 which is also a variable rate with a spread to SIFMA. This basis risk can be the result of a downgrade of the ASU's rating or the pricing of the ASU's bonds by the remarketing agent at rates higher than the SIFMA index.

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 a default occurs regarding the swap agreement, the non-defaulting party may designate a date to terminate the agreement. The ASU will revert to a variable rate if the counterparty defaults or if the swap is terminated. A termination of the swap agreement may also result in the ASU making or receiving a termination payment.

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Securities and cash restricted for bond debt service held by the trustee at June 30, 2008 totaled \$27.400 million.

The ASU has pledged portions of its gross revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2008. The related revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. These pledged revenues include student tuition and fees, certain auxiliary enterprise revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2008, pledged revenues totaled \$638.700 million, of which 6.10% (\$39.100 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for system revenue bonds through final maturity of July 1, 2036 is \$633.700 million. In addition, the ASU has pledged the same revenues on a subordinate basis to secure the Series 2006 Arizona State University Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2008 were \$11.600 million with annual debt service requirements of approximately \$1.200 million through July 1, 2021.

The ASU presently plans to issue approximately \$70.000 million in senior lien bonds and \$33.000 million in subordinated lien bonds for the Stimulus Plan for Economic and Educational Development (SPEED). Up to 80.00% of the related debt service of these subordinated lien bonds will be paid from Arizona State Lottery Commission revenues, with the balance being the responsibility of the ASU.

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2008 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2008
Governmental Activities:				
Department of Transportation	1994-2008	2009-2033	3.30-6.00%	\$1,974,860
School Facilities Board	2001-2008	2009-2021	.14-5.75%	784,210
Proprietary Funds:				
University Revenue Bonds	1992-2008	2009-2040	1.49-6.50%	902,255

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2008 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
2009	\$ 128,540	\$ 138,118	\$ 266,658	\$ 47,275	\$ 39,233	\$ 2,448	\$ 88,956
2010	135,525	130,808	266,333	50,965	36,749	2,448	90,162
2011	142,615	123,646	266,261	53,235	34,298	2,397	89,930
2012	150,040	116,172	266,212	43,290	31,797	2,342	77,429
2013	157,810	108,440	266,250	48,705	29,719	2,286	80,710
2014-2018	938,585	415,001	1,353,586	233,450	113,579	10,472	357,501
2019-2023	732,615	190,926	923,541	149,760	70,948	8,566	229,274
2024-2028	272,305	54,122	326,427	129,165	41,173	6,136	176,474
2029-2033	101,035	15,647	116,682	95,540	19,497	3,039	118,076
2034-2038	-	-	-	45,835	4,658	164	50,657
2039-2040	-	-	-	5,035	351	-	5,386
Total	\$ 2,759,070	\$ 1,292,880	\$ 4,051,950	\$ 902,255	\$ 422,002	\$ 40,298	\$ 1,364,555

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B. GRANT ANTICIPATION NOTES

Grant Anticipation Notes are issued by the ADOT and secured by revenues received from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues. The original amount of Grant Anticipation Notes issued in prior years and outstanding at the start of the fiscal year was \$282.860 million.

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

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2008
Governmental Activities:				
Department of Transportation	2001-2008	2009-2016	2.50-5.25%	\$ 298,280

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
2009	\$ 24,050	\$ 14,491	\$ 38,541
2010	25,170	13,367	38,537
2011	70,570	12,191	82,761
2012	43,885	8,762	52,647
2013	35,340	6,641	41,981
2014-2016	99,265	7,697	106,962
Total	\$ 298,280	\$ 63,149	\$ 361,429

C. CERTIFICATES OF PARTICIPATION

Governmental Activities

1. Department of Administration

The State has issued COPs to finance construction or improvements of office buildings that are primarily leased to State agencies. The State's obligation to make lease payments and any other obligations of the State under the lease are subject to, and dependent upon, annual appropriations made by the State Legislature and annual allocations of such appropriations being made by the Department of Administration for such purpose. The Department of Administration agrees to use its best efforts to budget, obtain, allocate, and maintain sufficient appropriated monies to make lease payments. In the event any such appropriation and allocation is not made, the leases will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the projects will be sufficient to pay principal and interest with respect to the then outstanding COPs. The scheduled payments of principal and interest with respect to the COPs are guaranteed under certificate insurance policies. The State's obligation to make lease payments does not constitute a debt or liability of the State within the meaning of any constitutional or statutory limitation. Neither the full faith and credit nor the general taxing power of the State is pledged to make payments of principal or interest due with respect to the COPs. Such payments will be made solely from amounts derived under the terms of the lease, including lease payments, and amounts from time to time on deposit under the terms of the declaration of trust.

On April 30, 2008, the State, through US Bank, NA (US Bank), issued COPs Series 2008A for \$238.990 million with interest rates ranging from 3.25% to 5.00% and maturity dates ranging from 2010 to 2028. The Series 2008A COPs maturing on or after September 1, 2018 are subject to optional redemption, prior to maturity, on any date on or after March 1, 2018, at a price equal to principal plus accrued interest to the redemption date, without premium. Additionally, the Series 2008A COPs are subject to extraordinary redemption, prior to maturity, on any interest payment date from the net proceeds of insurance or condemnation awards, at a price equal to principal plus accrued interest to the redemption date, without premium. The State realized net proceeds of \$238.855 million after receipt of \$11.846 million net original issue premium, deposit to US Bank's Interest Account of \$9.205 million for capitalized interest, and payment of \$2.776 million of bond insurance, underwriters' discount, and issuance

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costs. Upon sale of the Series 2008A COPs, US Bank (the trustee bank) immediately withdrew \$206.655 million from the Acquisition Fund and purchased the Lewis Prison Complex from the State. The remaining \$32.200 million will remain in the US Bank's Acquisition Fund for the Arizona State Hospital Forensic Unit. The net proceeds from the sale of the Lewis Prison Complex and the remaining issuance proceeds are being used to finance the following: (i) an approximately 4,000 bed prison expansion within the State, (ii) wastewater and water renovations and improvements at prisons throughout the State, and (iii) a new forensic unit and additional infrastructure improvements at the Arizona State Hospital.

2. School Facilities Board

In prior fiscal years, the SFB refinanced various COPs through advance-refunding arrangements. Under the terms of the refundings, sufficient assets to pay all principal, redemption premiums, if any, and interest on the refunded COPs have been placed in irrevocable trust accounts at commercial banks and invested in U.S. securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased COPs are not reflected in the accompanying financial statements. Refunded COPs for the SFB at June 30, 2008 totaled \$311.130 million.

Business-Type Activities

3. 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 2003, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 2001B. At June 30, 2008, the outstanding principal balance for the COPs Series 2001B was \$3.795 million, which will be paid by investments held in an irrevocable trust with a fair market value of \$3.998 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

In fiscal year 2005, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 1999 and 2001A. At June 30, 2008, the total outstanding principal balance for the COPs Series 1999 and 2001A was \$22.740 million, which will be paid by investments held in an irrevocable trust with a fair value of \$23.258 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

In fiscal year 2006, the U of A refunded, in advance of maturity, a portion of outstanding COP Series 1999. At June 30, 2008, the total outstanding principal balance for the COP Series 1999 was \$3.290 million, which will be paid by investments held in an irrevocable trust with a fair value of \$3.318 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

In fiscal year 2007, the U of A refunded, in advance of maturity, a portion of outstanding COPs Series 2001A, 2001B, and 2002A. At June 30, 2008, the total outstanding principal balance for the COPs Series 2001A, 2001B, and 2002A was \$59.195 million, which will be paid by investments held in an irrevocable trust with a fair value of \$60.736 million. Accordingly, the trust account assets and liability for these defeased COPs are not included in the accompanying financial statements.

4. Arizona State University

At June 30, 2008, the ASU has issued fixed rate COPs. The ASU's non-bonded debt consists of various issues of COPs that are generally callable at a prescribed date with interest payable semi-annually. Certain COPs of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, the liabilities for these defeased COPs are not included in the accompanying financial statements. The principal amount of all such COPs outstanding at June 30, 2008 was \$65.400 million.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2008 totaled \$12.800 million.

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A summary of the COPs issued as of June 30, 2008 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
Department of Administration:					
Refunding Certificates of 92A, 92C, & 1091	2001	2012	\$ 57,930	\$ 15,730	4.00 – 5.25
Health Lab/HRIS 2002A	2002	2023	63,270	44,940	4.00 – 5.50
Refunding Certificates of 92B	2003	2011	75,295	44,910	3.40 – 5.50
Refunding Certificates of 93B	2004	2012	16,725	9,455	3.00 – 5.00
1000 Bed Prison 2004B	2004	2019	31,965	26,695	3.00 – 5.25
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	238,990	238,990	3.25 – 5.00
School Facilities Board:					
New School Construction 2003A	2003	2014	372,730	136,950	3.00 – 5.00
New School Construction 2003B	2004	2015	194,610	93,310	2.75 – 5.25
New School Construction 2004A	2004	2019	47,160	38,725	2.25 – 5.00
New School Construction 2004B	2005	2017	190,040	112,200	4.00 – 5.25
New School Construction 2004C	2005	2020	47,585	42,755	4.75 – 5.00
Refunding Certificates of 2003A	2005	2018	201,125	199,630	2.50 – 5.00
Refunding Certificates of 2003B	2005	2019	80,055	78,640	2.50 – 5.00
Refunding Certificates of 2004B	2005	2020	53,045	52,710	2.50 – 5.00
Total Governmental Activities:			<u>\$ 1,670,525</u>	<u>\$ 1,135,640</u>	
Business-Type Activities:					
Arizona State University:					
Towers Project	1991	2011	\$ 4,500	\$ 1,160	6.89
Downtown Center – 1999A	1999	2025	5,620	4,615	5.75
Downtown Center – 1999B	1999	2025	5,165	4,450	8.00
2002 Certificates of Participation	2002	2027	103,800	24,680	4.75
2004 West Campus – Refunding	2004	2010	22,495	11,580	2.36
2004 Certificates of Participation	2005	2031	80,275	78,360	4.89
2005A Certificates of Participation	2005	2031	110,115	107,355	4.36
2006 Certificates of Participation	2006	2031	15,810	15,310	4.52
2006 Refunding Certificates of Participation	2007	2027	65,890	64,580	4.15
University of Arizona:					
Fixed Student Union A	1999	2020	21,607	3,963	5.13 – 5.30
Parking Garage/Residence Hall	1999	2009	18,635	175	5.00
Park Student Union/Ln Svcs/6th St Gar/TEP Bldg.	2001	2012	31,695	3,060	4.10 – 4.45
Gittings Bldg/Highland Infra/Life Sci.	2001	2014	21,425	2,185	4.75 – 5.00
Student Housing, Health Bldg., UA North	2002	2022	76,965	19,700	4.38 – 5.50
Meinel Bldg & Refund COPS 1994B	2002	2023	29,845	27,780	3.30 – 5.13
Refund COPS 1997 & Portion of Series 2001B	2003	2022	10,615	10,615	3.50 – 5.00
Med. Resh. Bldg./Biomed Sci./Tech. Infstr.	2004	2031	153,960	147,125	3.77 – 5.25
Chem.Bldg./Res.Life/Pkg.Garage/Rfnd. COPS 1994A	2004	2029	42,020	36,575	3.60 – 5.25
Refund COPS 1999A	2005	2024	12,660	12,660	4.00 – 5.00
Refund COPS 1999	2005	2024	14,825	14,825	5.00
Refund COPS 2001A	2005	2022	16,330	16,330	4.13 – 5.00
Refund COPS 1999, 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	29,460	27,935	3.38 – 5.00
Refund COPS 1999A&B, 2000A, 2001A&B, 2002A&B, 2003A&B, 2004A	2006	2025	58,650	57,930	3.63 – 5.00
Biomed Rsch Collab Bldg. Project	2006	2031	18,240	17,785	4.00 – 5.00
Refund COPS 2001A&B, 2002A, 2004B	2007	2031	105,080	105,080	3.50 – 4.50
Northern Arizona University:					
2004 Certificates of Participation	2005	2030	37,585	36,665	2.50 – 5.13
2005 Certificates of Participation	2006	2030	40,255	39,235	3.00 – 5.00
2006 Certificates of Participation	2006	2030	12,445	12,130	4.00 – 4.50
Total Business-Type Activities:			<u>\$ 1,165,967</u>	<u>\$ 903,843</u>	
Total Certificates of Participation			<u>\$ 2,836,492</u>	<u>\$ 2,039,483</u>	

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Principal and interest debt service requirements on COPs outstanding at June 30, 2008 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
2009	\$ 65,805	\$ 51,622	\$ 117,427	\$ 31,210	\$ 41,620	\$ 72,830
2010	77,540	50,289	127,829	32,315	40,288	72,603
2011	80,980	46,643	127,623	28,605	39,187	67,792
2012	84,970	42,648	127,618	34,802	38,433	73,235
2013	88,905	38,508	127,413	36,506	36,960	73,466
2014-2018	512,885	120,934	633,819	215,619	155,056	370,675
2019-2023	153,440	31,214	184,654	252,136	97,513	349,649
2024-2028	71,115	9,152	80,267	174,445	43,444	217,889
2029-2033	-	-	-	98,205	7,208	105,413
Total	<u>\$ 1,135,640</u>	<u>\$ 391,010</u>	<u>\$ 1,526,650</u>	<u>\$ 903,843</u>	<u>\$ 499,709</u>	<u>\$ 1,403,552</u>

D. LEASES

1. Leases

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

- Title to or ownership of the asset is transferred to the State at the end of the lease.
- The lease contains a bargain purchase option.
- The lease term is equal to 75.00% or more of the useful life of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25.00% of the total useful life of the asset.)
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90.00% of the fair market value of the leased asset. (This criterion does not apply if the beginning lease term falls within the last 25.00% of the total useful life of the asset.)

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The future minimum lease payments for long-term capital leases as of June 30, 2008 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2009	\$ 30,281	\$ 17,306
2010	29,289	16,613
2011	27,373	16,387
2012	27,054	16,120
2013	26,990	15,980
2014-2018	117,072	68,790
2019-2023	111,278	63,402
2024-2028	86,899	62,280
2029-2033	6,961	59,835
2034-2038	-	13,801
2039-2043	-	3,866
2044-2048	-	1,363
Total minimum lease payments	463,197	355,743
Less: amount representing interest	(122,247)	(176,691)
Less: amount representing executory costs	(91,074)	-
Obligations under Capital Leases	<u>\$ 249,876</u>	<u>\$ 179,052</u>

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

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

	Governmental Activities	Business-type Activities
Land	\$ 6,513	\$ 6,366
Construction in progress	1,088	-
Buildings	477,111	1,025,963
Infrastructure	-	53,761
Improvements other than buildings	2,420	-
Equipment	70,928	23,983
	558,060	1,110,073
Less: accumulated depreciation	(162,801)	(110,306)
Carrying Value	<u>\$ 395,259</u>	<u>\$ 999,767</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 2008, the State paid for compensated absences as follows: 83.28% from the General Fund, 10.96% from other funds, and 5.76% 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, 2007, as restated	Increases	Decreases	Balance June 30, 2008	Due Within One Year	Due Thereafter
Governmental Activities:						
Long-term Debt:						
Revenue bonds	\$ 2,328,840	\$ 646,830	\$ (216,600)	\$ 2,759,070	\$ 128,540	\$ 2,630,530
Grant anticipation notes	282,860	68,000	(52,580)	298,280	24,050	274,230
Certificates of participation	959,865	238,990	(63,215)	1,135,640	65,805	1,069,835
Capital leases	242,209	20,410	(12,743)	249,876	14,820	235,056
Installment purchase contracts	10,644	3,146	(4,882)	8,908	4,455	4,453
Notes payable	3,309	19,529	-	22,838	3,310	19,528
Premiums and discounts on debt	225,071	48,972	(31,227)	242,816	26,144	216,672
Deferred amounts on refundings	(14,266)	(2,853)	3,974	(13,145)	(3,974)	(9,171)
Total Long-term Debt	4,038,532	1,043,024	(377,273)	4,704,283	263,150	4,441,133
Other Long-term Liabilities:						
Compensated absences	224,141	271,932	(243,750)	252,323	170,072	82,251
Total Other Long-term Liabilities	224,141	271,932	(243,750)	252,323	170,072	82,251
Total Long-term Obligations	\$ 4,262,673	\$ 1,314,956	\$ (621,023)	\$ 4,956,606	\$ 433,222	\$ 4,523,384
Business-type Activities:						
Long-term Debt:						
Revenue bonds	\$ 868,565	\$ 203,570	\$ (169,880)	\$ 902,255	\$ 47,275	\$ 854,980
Certificates of participation	935,127	186	(31,470)	903,843	31,210	872,633
Capital leases	166,780	55,508	(43,236)	179,052	6,516	172,536
Installment purchase contracts	9,544	7,119	(3,639)	13,024	3,533	9,491
Notes payable	1,354	-	(332)	1,022	348	674
Premiums and discounts on debt	39,582	3,064	(4,435)	38,211	1,688	36,523
Deferred amounts on refundings	(29,211)	(1,043)	2,543	(27,711)	(1,657)	(26,054)
Total Long-term Debt	1,991,741	268,404	(250,449)	2,009,696	88,913	1,920,783
Other Long-term Liabilities:						
Compensated absences	64,566	73,293	(71,742)	66,117	13,992	52,125
Total Other Long-term Liabilities	64,566	73,293	(71,742)	66,117	13,992	52,125
Total Long-term Obligations	\$ 2,056,307	\$ 341,697	\$ (322,191)	\$ 2,075,813	\$ 102,905	\$ 1,972,908

The above long-term obligations relating to governmental activities include internal service funds. Amounts for capital leases and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets because \$5.879 million of capital leases and \$86.628 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net assets.

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NOTE 8. INTERFUND TRANSACTIONS

INTERFUND BALANCES AND TRANSFERS

Interfund Receivables/Payables

Interfund balances as of June 30, 2008 are as follows (expressed in thousands):

Due From	Due To							Total Due To
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Non-Major Enterprise Funds	Internal Service Funds		
General Fund	\$ -	\$ -	\$ 545	\$ 45,698	\$ 8	\$ 1,401	\$ 47,652	
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	63,002	-	-	3,307	33,958	-	100,267	
Land Endowments Fund	544	-	-	11,747	-	1	12,292	
Non-Major Governmental Funds	11,414	-	-	2,053	-	478	13,945	
Unemployment Compensation Fund	21	-	-	437	-	-	458	
Lottery Fund	17,812	-	-	1,213	-	-	19,025	
Non-Major Enterprise Funds	52,170	20,000	-	-	-	-	72,170	
Internal Service Funds	1,354	-	-	-	-	60	1,414	
Total Due From	\$ 146,317	\$ 20,000	\$ 545	\$ 64,455	\$ 33,966	\$ 1,940	\$ 267,223	

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, 2008 are as follows (expressed in thousands):

Transferred From	Transferred To							
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Universities Fund	Industrial Commission Special Fund	Non-Major Enterprise Funds	Total Transfers Out
General Fund	\$ -	\$ 263	\$ 273	\$ 55,364	\$ 1,073,267	\$ -	\$ 7,250	\$ 1,136,417
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	116,532	-	-	283,367	-	-	-	399,899
Land Endowments Fund	141	-	-	95,289	-	-	-	95,430
Non-Major Governmental Funds	205,413	4,424	-	13,396	-	19,000	105	242,338
Unemployment Compensation Fund	545	-	-	2,260	-	-	-	2,805
Lottery Fund	74,821	-	-	26,518	-	-	-	101,339
Non-Major Enterprise Funds	1,043	-	-	-	-	-	-	1,043
Internal Service Funds	18,092	-	-	30	-	-	-	18,122
Total Transfers In	\$ 416,587	\$ 4,687	\$ 273	\$ 476,224	\$ 1,073,267	\$ 19,000	\$ 7,355	\$ 1,997,393

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

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NOTE 9. FUND RECLASSIFICATION AND CORRECTIONS OF ERRORS

A. FUND FINANCIAL STATEMENTS

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

	Governmental Funds	Proprietary Funds	
	Non-major Governmental	Universities	Internal Service
Fund Balances/Net Assets, as previously reported	\$ 1,109,411	\$ 1,955,246	\$ (191,921)
Fund Reclassification:			
Greater Arizona Development Authority Fund	(17,771)		
Prior year corrections of errors		5,659	(72,556)
Fund Balances/Net Assets, as restated	\$ 1,091,640	\$ 1,960,905	\$ (264,477)

B. GOVERNMENT-WIDE STATEMENTS

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

	Governmental Activities	Business-type Activities
Net Assets, as previously reported	\$ 18,917,699	\$ 3,073,377
Fund Reclassification:		
Greater Arizona Development Authority Fund	(17,771)	
Prior year corrections of errors	(51,065)	(15,832)
Net Assets, as restated	\$ 18,848,863	\$ 3,057,545

1. Fund Reclassification

Based on GASB 14, the GADA is a discretely presented component unit. However, in prior years the GADA was included in the Special Revenue Funds (Non-major Governmental) due to its relative insignificance to the State's financial statements. At fiscal year end 2008, the GADA has been reclassified as a discretely presented component unit, which constitutes a change in reporting entity. The amount of fund balance reclassified from Non-major Governmental Funds to a Component Unit – Governmental Fund was \$17.771 million.

2. Prior Year Corrections of Errors

a. NAU

In fiscal year 2008, the NAU made a correction to the method it uses to calculate capitalized interest for construction in progress. The correction was made to capitalize additional interest expense in prior years. The cumulative effect of corrections for fiscal years 2003 through 2007 was to increase capital assets net of accumulated depreciation in the amount of \$5.659 million.

b. Retiree Sick Leave Fund (RASL)

In fiscal year 2008, the State applied the provisions of GASB Statement No. 16 - *Accounting for Compensated Absences* (GASB 16) to accrue the liability for accumulated sick leave benefits in the RASL fund (See Note 12.C for a more detailed description of the RASL benefit). In prior fiscal years, this accrued liability was calculated based on approved applications received by fiscal year end. The application of GASB 16 resulted in a restatement of beginning net assets for the Internal Service Funds of \$72.556 million for the fund level proprietary financial statements. In the Government-wide financial statements, application of GASB 16 resulted in restatements of beginning net assets for Governmental Activities and Business-type Activities in the amounts of \$51.065 million and \$21.491 million, respectively. The restatement of both Governmental Activities and Business-type Activities reflects the fact that both governmental funds and enterprise funds participate in the RASL program.

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NOTE 10. FUND DEFICIT

A. INDUSTRIAL COMMISSION SPECIAL FUND

The Industrial Commission Special Fund (Special Fund) deficit decreased in the amount of \$7.931 million from \$38.527 million to \$30.596 million during fiscal year 2008. The main contributor to the Special Fund deficit continues to be the insolvent carrier liability, which was \$242.771 million at June 30, 2008. The Special Fund is responsible for paying all current and future Arizona workers' compensation claims of insolvent insurance carriers and self-insured plans. Some of the claims expense will be recovered over a period of years as the Special Fund receives liquidation distributions from the insolvent companies.

A 1.50% Special Fund assessment, under ARS §23-1065(A), was levied beginning in calendar year 2004 because of the growth in insolvent carrier liabilities. Furthermore, in 2005, ARS §23-1081(B) was amended to permit a surplus in the Industrial Commission Administrative Fund to be transferred to the Special Fund when the Special Fund is not actuarially sound. During fiscal year 2008, \$19.000 million was transferred from the Administrative Fund to the Special Fund.

B. HEALTHCARE GROUP OF ARIZONA

As of June 30, 2008, the Healthcare Group of Arizona (HCG) had a fund deficit of \$15.797 million as a result of significant losses in prior fiscal years. In fiscal year 2008, the HCG revenues were sufficient to cover all expenses incurred in that year. The HCG received a \$7.250 million General Fund subsidy in order to reduce its liabilities owed to its contracted HMOs for reconciliations incurred in fiscal years 2006 and 2007.

In fiscal year 2007, management projected a net loss of \$2.000 - \$8.000 million for fiscal year 2008. This was a conservative estimate as the HCG recognized a net gain of \$693 thousand before a \$7.250 million General Fund subsidy. In fiscal years 2006 and 2007, the HCG was unable to cover its costs due to the Preferred Point of Service (PPOS) operating at net medical losses (medical costs were more than premiums received). The elimination of the availability of the PPOS program in Maricopa and Pima Counties in fiscal year 2009 is projected to bring the remaining PPOS program to a break even point, thus allowing the HCG to begin to accumulate reserves for the purpose of eliminating its reconciliation liabilities.

Many other actions were taken to address the HCG's losses in fiscal years 2006 and 2007 and to address the deficit. The significant actions and events are as follows:

- **Eliminated Zero Deductible Plans:** The zero dollar deductible plans were eliminated and 4,939 members either terminated their coverage or were transitioned into a minimum of \$500 deductible plan as of January 1, 2007, thereby requiring a higher cost sharing.
- **Focus on Wellness Care:** To ensure the HCG members continued to stay healthy and receive quality, wellness-focused care, the HCG implemented changes to the benefit plans eliminating the requirement to meet their deductible for wellness care. Members pay only a co-payment for preventive/wellness visits, PCP visits, urgent care, and basic lab and x-ray services.
- **Groups of 'One' Guaranteed Issue:** The HCG has been the only healthcare coverage option in the State of Arizona that is guaranteed issue for groups of one, resulting in a higher medical risk profile compared to other small business health care coverage available within the State. At June 30, 2008, groups of one totaled 5,596 groups. To address their increased cost of care, employer groups with only 'one' employee were further community rated as a separate group, adjusting their premiums to cover a higher cost of care.
- **Higher Medical Costs:** Hospital participation in the HCG program is not mandatory. Although the HCG does not provide routine coverage at out-of-network facilities, costs for services at non-participating hospitals rose faster than projected mostly related to care received as a result of an emergency room visit at a non-contracted facility. The coinsurance applied to out-of-network facilities was increased by 20.00% to cover this added cost. The Preferred Provider Organization (PPO) product was also transitioned to a PPOS tiered network, with the higher cost hospitals placed at a separate tier associated with a higher coinsurance.
- **Hospital Default Rate:** Effective September 19, 2007, Laws 2007, Chapter 263 (HB 2789) placed a default rate for payment of 114.00% of the AHCCCS reimbursement rate if a contract does not exist between a Healthcare Group contractor and a hospital provider. The impact of this was a cost savings of approximately \$3.200 million in calendar year 2006 and estimated cost savings of \$2.500 and \$3.000 million in calendar years 2007 and 2008.

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- Higher Utilization of Services: “Bare Period” requirements result in higher medical utilization for new members who have been without continuous coverage; and, in turn, utilize services upon enrollment at a higher rate than members who had continuous coverage. Although a 12-month pre-existing conditions policy remains in effect, a benefit dollar maximum of \$100 thousand was placed on members during their first 12-months of enrollment.
- Administrative Costs: In fiscal year 2008, the HCG reduced its administrative expense to approximately \$5.200 million from the approximate \$8.100 million expended in fiscal year 2007. This was accomplished largely by moving more communications to an electronic format, utilizing a fulfillment vendor for mailings, and eliminating administrative functions being performed at the HCG that were redundant with the HMO's operations. Additional reductions occurred in the usage of consultants and contracted/temporary labor and elimination of some FTE positions helped reduce personnel type costs by over 50.00%. Health plan contracts were also amended to decrease the relative amount of their administrative payments, thus reducing reconciliation costs.
- Change in Fiscal Year 2009 - PPOS availability: Effective October 2008, Laws 2008, Chapter 288 (HB 2275) restricts the PPOS program to counties with a population of less than 500 thousand, thus eliminating the PPOS option in Maricopa and Pima Counties. To the extent that the PPOS costs were more than premiums collected, funds had to be reallocated in order to pay these medical claims. It is projected in fiscal year 2009 that the PPOS program in the remaining rural counties will operate on a break even basis with medical costs equaling the medical premiums received, resulting in a medical loss ratio reduction of approximately 35.00% in fiscal year 2009 compared to fiscal year 2008.

For fiscal year 2009, management is projecting that the HCG will continue to operate without incurring additional losses. Further, it is projected that the HCG will not incur any additional reconciliation liability in fiscal year 2009. The following table summarizes the HCG reconciliation liability activity as of June 30, 2008 (in thousands of dollars):

	<u>Reconciliation Period</u>			Total
	FY 06	FY 07	FY 08	
Balance June 30, 2007	\$ 5,051	\$ 17,458	\$ -	\$ 22,509
Payments made	5,156	2,354	-	7,510
Accruals and adjustments	105	(227)	4,324	4,202
Balance June 30, 2008	<u>\$ -</u>	<u>\$ 14,877</u>	<u>\$ 4,324</u>	<u>\$ 19,201</u>

The reconciliation liability will be paid by allocating 2.00% of medical premium revenues for a reconciliation reserve, from residual earnings, and from any State subsidies provided by the Legislature. Reconciliation payment terms differ by each plan, such as, accruing 1.00% per month or repayment within 60 days of final reconciliation.

There can be no assurance that these operating improvements will occur or will provide sufficient cash to fund operating expenses. Additionally, if there is an adverse change in enrollment and the premium increases are not sufficient to fund the reserves for past losses and future medical claims experience costs, then HCG will be required to further scale back administrative expenditures to the level supported by actual enrollment and/or require a subsidy from the State’s General Fund to cover these operating costs. There can be no assurances that the Legislature will approve such a subsidy from the State’s General Fund.

Even though deficit reduction measures resulted in a net gain for fiscal year 2008, a fiscal year 2008 General Fund subsidy of \$7.250 million was required to pay down a portion of the prior fiscal year reconciliation liabilities and a net deficit of \$15.797 million still exists as of June 30, 2008. A \$5.000 million General Fund subsidy was passed by the Legislature for fiscal year 2009. However, there is no assurance that future subsidies will be provided to continue to pay down prior year losses. It is not anticipated in the foreseeable future that operations will generate sufficient cash flow to significantly pay down the remaining prior deficit. If a General Fund subsidy is not provided in fiscal year 2010, or if the fiscal year 2009 General Fund subsidy is reduced due to the condition of the State’s General Fund, or the current favorable medical loss trend does not continue, each health plan contractor will have to make its own decision as to whether their organization is willing to carry the medical loss liability from the HCG line of business until or if premiums are adequate to recover their prior year losses. Should the health plan elect to call the prior year reconciliation liabilities before the HCG has sufficient funds to provide such payments and new terms are not negotiated, or the Legislature does not provide the HCG with additional subsidies, it raises substantial doubt in the HCG’s ability to continue as a going concern.

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Accordingly, the accompanying financial statements have been prepared assuming that the HCG will continue as a going concern. The matters discussed above raise substantial doubt about the HCG's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the HCG be unable to continue as a going concern.

C. RISK MANAGEMENT FUND

The Risk Management Fund (RMF) deficit of \$307.374 million is primarily due to the RMF receiving annual funding only for expected paid claims (self-insured and excess insurance expenditures, legal and other claim related expenditures, and administrative expenditures), and not being funded for non-current accrued insurance losses. Accrued insurance losses of the RMF are not considered when determining funding for each fiscal year.

D. RETIREE SICK LEAVE FUND

The RASL pays retirees for their accumulated sick leave upon retirement from State service when they meet certain criteria. During fiscal year 2008, the State, as described in Note 9 – *Fund Reclassification and Corrections of Errors*, applied the provisions of GASB 16 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 .40% charge on gross payroll. The \$74.604 million fund deficit is primarily due to the above funding mechanism.

NOTE 11. JOINT VENTURE

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

The U of A has committed resources equivalent to 25.00% of the LBT's construction costs and annual operating costs. As of June 30, 2008, the U of A has made cash contributions of \$18.159 million toward the project's construction costs, which were recorded as long-term investments on the Statement of Net Assets. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets have been substantially completed and the telescope has entered the commissioning phase. During calendar year 2007, the telescope has become 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, \$676 thousand in calendar year 2007, as a reduction in its investment. At June 30, 2008, the investment totaled \$17.483 million. According to the audited financial statements of the LBT for the year ended December 31, 2007, assets, liabilities, revenues, and expenses totaled \$121.000 million, \$3.000 million, \$12.000 million, and \$10.000 million, respectively.

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

NOTE 12. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE

A. RISK MANAGEMENT INSURANCE LOSSES

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

The Industrial Commission Special Fund (Special Fund) provides payment of workers' compensation losses which are not covered by the State Compensation Fund, the Department of Administration – Risk Management Section, private insurance

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carriers, or self-insured employers. The workers' compensation claims paid by the Special Fund encompass losses against uninsured or underinsured employers and insolvent insurance carriers and would include payments for vocational rehabilitation, medical conditions incurred prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments, and compensation for loss of earnings associated with the disability.

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

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund (internal service fund) and the Special Fund (enterprise fund). As discussed in the above paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Section will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Interest and dividend earnings of investments and assessments on gross premium revenues currently fund the Special Fund. To provide funding for workers' compensation claims, the Special Fund may direct payment to the State Treasurer an amount not to exceed one and one-half percent of all premiums received by the State Compensation Fund, private carriers, and self-insured plans during the immediately preceding calendar year. Beginning in calendar year 2004, this 1.50% assessment was levied under ARS §23-1065(A) because of a deficit net assets balance resulting from an increase in accrued insurance losses due to insolvent insurance carriers.

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2008. The estimated loss reserve of \$382.138 million is \$19.010 million lower than the \$401.148 million reserve estimate at June 30, 2007. The most significant category of change was the insolvent carrier claims that decreased in the amount of \$21.939 million from \$264.710 million at June 30, 2007 to \$242.771 million at June 30, 2008. The reserves were discounted at an assumed rate of three and one-half percent for the compensation claims and zero percent for the medical claims. For medical benefits, it was assumed that the inflation in medical costs will equal the investment return earned by the Special Fund on those reserves.

The only Special Fund assessment levied in 2008 was the 1.50% assessment under ARS §23-1065(A). The .50% assessment under ARS §23-966(D), based on the insolvent carrier losses, and .50% assessment under ARS §23-1065(F), based on the total apportionment liability, were not levied in 2008. The Special Fund has filed pending proof of claim requests with ancillary receivers and liquidators holding deposits and surety bonds of several insolvent companies. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier deposits (no insurance settlement income) as revenue at the time received rather than recording a receivable.

Occasionally, the Risk Management Section agrees with claimants to purchase an annuity contract to settle specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State requires the claimant to sign an agreement releasing the State from any further obligation. As a result of these requirements, the likelihood that the State will be required to make future payments on these claims is remote.

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

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2007 and June 30, 2008 (expressed in thousands):

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Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2007	\$ 367,200	\$ 46,276	\$ 69,371	\$ 344,105
2008	344,105	84,363	64,541	363,927
Industrial Commission Special Fund:				
2007	410,243	15,684	24,779	401,148
2008	401,148	7,576	26,586	382,138

B. LITIGATION

In *Roosevelt Elementary School District No. 66 vs. State of Arizona* and *Somerton Elementary School District No. 11 vs. State of Arizona*, the plaintiffs are seeking a declaration that Arizona’s funding of the Building Renewal Fund for school district capital resources under ARS §15-2031 is unconstitutional. The actions were originally commenced in 1999 and 2002, but they were remanded by the Arizona Court of Appeals after its decision in *Roosevelt Elem. Sch. Dist. v. State of Arizona*, 205 Ariz. 594, 74 P.3d 258 (App. 2003). On remand, plaintiffs substituted some parties, leaving the plaintiff school districts as Globe Unified School District, Williams Unified School District, and Sierra Vista Unified School District, and discovery recommenced. In October, 2006, the court granted the State summary judgment, finding that the named school districts had failed to seek emergency funding under ARS §15-2022. The court indicated that if the districts proved subsequently that they had sought emergency funding and been rejected, and had exhausted all sources of State funding available to them for their facility needs, they might reinstate their claims. Plaintiff Globe Unified School District is no longer a party. The court later agreed to stay the judgment against plaintiffs through June 1, 2007, and plaintiffs successfully sought even further continuance on the inactive calendar. The plaintiffs added a new plaintiff district, Tempe Union High School District, and the case was transferred to the active calendar and set for trial. The State objected, and sought dismissal of the cases. The motions were argued in September, 2008, and the court issued an order requiring a further evidentiary hearing on the status of the plaintiff districts’ alleged capital needs and financial resources for late February 2009. The plaintiffs are not seeking damages. However, they are seeking a declaration that would require the State to provide additional funding for building maintenance and renewal needs. The plaintiffs are likely to argue that the Arizona State Legislature was required to fund according to the Building Renewal Fund Formula, which was ultimately suspended by the Arizona State Legislature. The formula-calculated amounts that were not funded for just the 1999-2000, 2001-2002, and 2002-2003 fiscal years amounted to almost \$186.000 million. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State could incur losses in excess of \$200.000 million.

In *Mayer vs. Winkelman*, the plaintiffs have filed an action in Maricopa County Superior Court seeking an accounting, declaratory relief, and damages for breach of trust. Damages are for the value of land disposed of by the State Land Department between 1929 and 1967 for approximately 600 rights of way that were issued to governmental entities without appraisal or auction, and without the payment of any compensation. In January 2007, the court granted motions to dismiss on the ground that the plaintiffs’ claims were barred by laches. An appeal was filed by the plaintiffs. The Court of Appeals issued an opinion concluding that the *Lassen vs. State of Arizona ex rel Highway Dept.* did not apply retroactively to past dispositions of rights of way. The plaintiff’s claim for damages for breach of fiduciary duty was deemed to be time barred by statute of limitations, ARS §12-821.01(A). A petition for review was filed by plaintiffs, but not on the claim of damages for breach of fiduciary duty. The State filed a cross-petition. The State Supreme Court accepted the petition and cross-petition. The parties filed supplemental briefs and the matter was argued to the Arizona Supreme Court on December 11, 2008. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State would have to pay the Land Endowments Fund between \$500.000 million and \$1.0 billion.

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

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C. ACCUMULATED SICK LEAVE

Sick leave includes any approved period of paid absence granted an employee due to illness, injury, or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of at least 500 hours, with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25.00% for 500 hours to a maximum of 50.00% for 1,500 hours. The maximum benefit value is \$30 thousand. The benefit is paid out in annual installments over three years. The RASL Fund is accounted for in the financial statements as an internal service fund and accounts for the retiree accumulated sick leave liability of \$84.903 million.

D. UNCLAIMED PROPERTY

The State of Arizona's Uniform Unclaimed Property Act requires deposit of certain unclaimed assets into a managed agency fund. ARS §44-313 requires a separate trust fund of not less than \$100 thousand to be retained for prompt payment of claims. The excess amount, above that which is required to be retained, is required to be deposited to the General Fund where it is included as other revenue, except that fifty-five and twenty percent of the remaining net cash collected, after refunds, is transferred to the Department of Commerce Housing Fund to be used for low-cost housing and the State Treasurer for distribution as provided for in ARS §5-113, respectively. Under ARS §41-2407, monies from unclaimed victim restitution payments are deposited in the Victim Compensation and Assistance Fund for the purpose of establishing, maintaining, and supporting programs that compensate and assist victims of crime. The balance is to be deposited in the General Fund. For fiscal year 2008, \$33.684 million was deposited in the Housing Fund, \$12.249 million was deposited in the Racing Fund, \$173 thousand was deposited in the Victim Restitution Fund, and \$9.755 million was deposited in the General Fund.

A total of approximately \$600.245 million (net of refunds issued) has been collected since inception of the fund. The State is also holding securities valued at \$19.544 million, and mutual funds of \$1.504 million. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. This liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona. At June 30, 2008, \$142.918 million of this liability is included as Due to Others in the General Fund.

E. CONSTRUCTION COMMITMENTS

The ADOT had outstanding commitments under construction contracts of approximately \$1.1 billion at June 30, 2008.

F. ARIZONA STATE LOTTERY

Annuities are purchased for all prizes over \$400 thousand for which winners will receive the jackpot in annual installments for The Pick on-line game. These annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody's, Duff & Phelps, or Weiss. The Lottery may incur future liabilities on these annuities. Aggregate future payments to prize winners on existing annuities totaled approximately \$98.655 million at June 30, 2008. Approximately \$76.927 million of the total aggregate future payments at June 30, 2008 relate to annuities purchased from five separate insurance companies, of which approximately \$22.410 million relates to a single insurance company.

NOTE 13. TOBACCO SETTLEMENT

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

The State recorded tobacco settlement revenue of \$115.587 million and \$126.587 million in the fund statements and the government-wide statements in fiscal year 2008, respectively. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a volume adjustment, which could reflect any decreasing

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cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2008.

NOTE 14. PUBLIC-PRIVATE PARTNERSHIP

The State of Arizona has entered into a partnership agreement with Accenture. The purpose of this partnership is to fund the Department of Revenue's technology needs. The agreement stipulates that Accenture will be paid 85.00% of the new revenue generated from the system enhancements, even if this amount is insufficient to cover the total contract cost. Accordingly, Accenture had created a system that increases the State's efficiency in collecting tax revenues. As of June 30, 2008, the State has paid Accenture \$144.794 million towards the \$157.702 million contract cost. Included in the \$157.702 million contract cost is capitalized interest charges of \$7.000 million and application support charges of \$47.739 million.

NOTE 15. SUBSEQUENT EVENTS

In July 2008, NAU issued approximately \$43.100 million of System Revenue Bonds for the purpose of constructing a residence life warehouse, expanding the distance learning facility, expanding recreational fields, replacing the turf in the Skydome athletic facility, and various infrastructure improvements. These bonds are secured by a first lien on certain gross revenues and are on parity with the Series 1997 System Revenue Bonds, the Series 2002 System Revenue Bonds, the Series 2003 System Revenue Bonds, the Series 2004 System Revenue and Refunding Bonds, the Series 2005 System Revenue Bonds, the Series 2006 System Revenue Refunding Bonds, and the Series 2007 System Revenue Bonds.

On September 25, 2008, the ADOT issued \$181.050 million of Highway Revenue Bonds, Series 2008B to finance portions of the ADOT's five-year capital program and pay the costs of issuance. The Series 2008B Bonds were issued as senior lien bonds and mature from July 1, 2023 through July 1, 2033. Net proceeds totaled \$187.471 million (after receipt of \$7.550 million reoffering premium and payment of \$1.130 million in underwriting fees and issuance costs). The Bonds were rated AAA and Aa1 by Standard & Poor's Ratings Services and Moody's Investors Service, respectively.

In November of 2008, the ASU issued \$104.100 million in senior lien bonds to fund the (previous) construction of the Polytechnic Academic Complex. The bonds have a 20 year maturity at an interest rate of 5.89%.

On November 14, 2008, the SFB, through The Bank of New York Mellon Trust Company, NA (BNY), issued COPs Series 2008 for \$580.035 million. The 2008 COPs include \$430.835 million of serial certificates with interest rates ranging from 4.00% to 5.75% and maturity dates ranging from 2011 to 2024. The 2008 COPs also include two term certificates consisting of \$89.655 million, with an interest rate of 5.13% due September 1, 2021, and \$59.545 million, with an interest rate of 5.25% due September 1, 2023. The 2008 COP certificates maturing on or after September 1, 2019 are subject to optional prepayment, prior to maturity, without premium. The 2008 COP term certificates maturing on September 1, 2021 and September 1, 2023 are subject to mandatory prepayment without premium. The State realized net proceeds of \$581.000 million after receipt of \$11.960 million net original issue premium, deposit to BNY Certificate Account of \$8.096 million for capitalized interest, and payment of \$2.899 million of issuance costs, including underwriters' discount. The 2008 COPs are being issued to: (i) finance the costs of acquiring leasehold interests in school sites and certain school facilities, which will be subleased to various schools districts within the State, as well as the costs of other new school facilities, (ii) pay capitalized interest with respect to the 2008 COPs, and (iii) pay the costs of issuance.

On April 7, 2009, the ASU issued System Revenue Bonds, Series 2009A (2009A Bonds) for \$36.250 million. The 2009A Bonds include \$36.250 million of serial bonds with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2011 to 2030. The 2009A Bonds maturing on or before July 1, 2019 are not subject to optional redemption prior to their stated maturities. The 2009A Bonds maturing on or after July 1, 2020 are subject to redemption at the option of the ASU on July 1, 2019, and on any date thereafter, at a redemption price equal to principal plus accrued interest to the redemption date, without premium. The ASU realized net proceeds of \$37.000 million, after receipt of \$1.117 million net original issue premium and payment of \$367 thousand for bond issuance costs, including underwriters' discount. The 2009A Bonds are being issued to acquire, construct, equip, and improve various projects at the ASU and pay the costs of issuance.

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On April 15, 2009 through April 27, 2009, May 13, 2009 through May 20, 2009, and May 22, 2009 through May 26, 2009, pursuant to ARS §35-185.01 and §35-185.02, the State Treasurer issued Treasurer's Warrant Notes (TWNs) in lieu of immediate redemption of warrants presented to the State Treasurer for payment of authorized General Fund expenditures. TWNs are issued only in the event the State Treasurer has insufficient funds to redeem warrants presented for payment of authorized expenditures of the State's General Fund. TWNs are issued daily depending on cash flow needs, and are redeemed the next business day. Any time TWNs are outstanding, all monies which would normally be deposited into the State General Fund, except amounts sufficient to pay constitutional officers of the State, shall be deposited into the TWN Redemption Fund to redeem outstanding TWNs. At May 26, 2009, the outstanding balance of the TWNs was approximately \$10.629 million.

On April 23, 2009, the ADOT issued Grant Anticipation Notes Series 2009A (2009A GANs) for \$55.420 million, with interest rates ranging from 2.50% to 5.00% and maturity dates ranging from 2014 to 2017. The 2009A GANs were issued at a premium. The 2009A GANs are not subject to redemption prior to their stated maturity. Approximately \$62.000 million of the proceeds from the issuance of the 2009A GANs will be used to pay a portion of the construction costs of certain controlled-access highways within Maricopa County, Arizona to be constructed by the ADOT, and for which the Series 2009A Grant Agreement has been executed with the Federal Highway Administration. The balance of the proceeds will be used to pay the cost of issuing the 2009A GANs.

On April 28, 2009, the U of A issued System Revenue Bonds, Series 2009A for \$202.370 million to finance the Sixth Street Residence Halls and the Residence Life Building Renewal Phase 3 & 4, including capitalized interest.

Subsequent to June 30, 2008, world markets have continued to experience significant losses due to worldwide capital market and economic uncertainty. As a result, the ASRS investments have declined by approximately 26% subsequent to June 30, 2008 through November 18, 2008, the date of the ASRS' separately issued Independent Auditor's Report. A sustained loss of that magnitude will have the effect of reducing the July 1, 2009 actuarially determined funded status of the ASRS and significantly reducing the market value funded status of the ASRS for the same period. The overall result will have the effect of increasing contribution rates effective July 1, 2010.

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 with the exception of the Law College Association, which has a May 31 year-end.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Measurement Focus and Basis of Accounting

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

2. Net Assets

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

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

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

3. Cash and Cash Equivalents

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

4. Investments

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

5. Income Taxes

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

6. Annuities Payable and Other Trust Liabilities

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

7. Contributions

Contributions are recorded in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

8. Net Assets Released from Restriction

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

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9. Use of Estimates

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

B. DEPOSITS AND INVESTMENTS

1. Component Units

a. Deposits and Investment Policies

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

b. Custodial Credit Risk - Deposits 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 UMC does not have a formal policy regarding custodial credit risk for deposits. The UMC holds deposits in excess of FDIC limits. At June 30, 2008, uninsured, uncollateralized deposits included in cash and cash equivalents were approximately \$13.709 million.

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 UMC does not have a formal policy regarding custodial credit risk for investments. The investments of the UMC are uninsured, unregistered, and held by brokers in the UMC's name.

c. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The WIFA does not have a formal policy regarding interest rate risk. The following table presents the interest rate risk for the WIFA utilizing the segmented time distribution method as of June 30, 2008 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Corporate asset backed securities	\$ 15,616	\$ 15,616	\$ -	\$ -	\$ -
Corporate collateralized mortgage obligations	1,489	-	-	-	1,489
Corporate notes	63,165	63,165	-	-	-
Guaranteed investment contracts	97,100	-	13,577	83,523	-
Money market mutual funds	5,239	5,239	-	-	-
Repurchase agreements	33,132	33,132	-	-	-
U.S. Agency Securities	42,867	42,867	-	-	-
U.S. Agency Mortgage Backed Securities	28,353	-	-	-	28,353
U.S. Treasury Securities	5,017	5,017	-	-	-
Total	\$ 291,978	\$ 165,036	\$ 13,577	\$ 83,523	\$ 29,842

The UMC's investment policy limits the portfolio duration related to debt securities to the Lehman Brothers Intermediate Government/Credit Index. This is an index based on all publicly issued intermediate government and corporate debt securities with average maturities of four to five years. The following table presents the estimated maturities of the UMC's investments, utilizing the segmented time distribution method as of June 30, 2008 (expressed in thousands):

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Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Commercial paper	\$ 15,615	\$ 15,615	\$ -	\$ -	\$ -
Corporate fixed income	608	-	608	-	-
Guaranteed investment contracts	4,243	-	-	-	4,243
Money market mutual funds	2,314	2,314	-	-	-
Structured notes	23,355	-	23,355	-	-
U.S. Treasury Securities	77,841	77,841	-	-	-
Total	\$ 123,976	\$ 95,770	\$ 23,963	\$ -	\$ 4,243

d. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. The WIFA does not have a formal policy regarding credit risk. The following table presents the WIFA's investments which were rated by S & P's and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2008 (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	A1	Not Rated
Corporate securities	\$ 80,270	\$ 25,953	\$ 21,071	\$ 33,246	\$ -	\$ -
Guaranteed investment contracts	97,100	97,100	-	-	-	-
Money market mutual funds	5,239	-	-	-	-	5,239
Repurchase agreements	33,132	33,132	-	-	-	-
U.S. Agency Securities	71,220	46,380	-	-	24,839	1
Total	\$ 286,961	\$ 202,565	\$ 21,071	\$ 33,246	\$ 24,839	\$ 5,240

The UMC's investment policy establishes ranges which limit the level of investments held in domestic and international equities, fixed income securities, and alternative investment strategies. Investment in fixed income securities is limited to investment grade securities with a credit rating of BBB, or equivalent, or better. The portfolio of fixed income securities must maintain an average rating of A or better at all times. The following table presents the UMC's investments which were rated by S & P's and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2008 (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	Not Rated
Alternative investments	\$ 2,208	\$ -	\$ -	\$ -	\$ 2,208
Commercial paper	15,615	-	-	-	15,615
Corporate fixed income	608	608	-	-	-
Guaranteed investment contracts	4,243	-	4,243	-	-
Managed futures	26,600	-	-	-	26,600
Money market mutual funds	2,314	-	-	-	2,314
Structured notes	23,355	-	18,237	5,118	-
Other	19,660	-	-	-	19,660
Total	\$ 94,603	\$ 608	\$ 22,480	\$ 5,118	\$ 66,397

e. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. As of June 30, 2008, an investment in Bayerische Landesbank (fair value of \$40.586 million) was approximately 13.90% of the WIFA's total investments, an investment in AIG Matched Funding Corp. (fair value of \$25.153 million) was approximately 8.61% of the WIFA's total investments, an investment in Royal Bank of Canada (fair value \$15.158 million) was approximately 5.19% of the WIFA's total investments, and an investment in DEPFA Bank (fair value \$16.205 million) was approximately 5.55% of the WIFA's total investments.

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f. Foreign Currency Risk

The UMC's investment policy permits it to invest a portion of its holdings in international equities, alternative, and managed future investments. The UMC's current holdings in international securities totaled approximately \$40.156 million, or 31.77% of total investments not held by trustee. The following table summarizes the UMC's foreign currency risk as of June 30, 2008 (expressed in thousands):

Foreign Currency Risk by Investment Type at Fair Value			
(Expressed in Thousands)			
Currency	Fixed Income	Equities	Total
Australian Dollar	\$ -	\$ 1,638	\$ 1,638
Bermuda Dollar	-	320	320
Brazil Real	-	950	950
British Pound Sterling	1	5,185	5,186
Canadian Dollar	-	1,779	1,779
Cayman Islands Dollar	-	260	260
Chilean Peso	-	59	59
Chinese Yuan	1,260	1,218	2,478
Danish Krone	-	143	143
Euro	3,626	12,633	16,259
Hong Kong Dollar	-	460	460
Indian Rupee	-	18	18
Indonesian Rupiah	-	178	178
Japanese Yen	1	5,883	5,884
Malaysian Ringgit	-	46	46
Netherlands Antilian Guilder	-	100	100
New Taiwan Dollar	-	227	227
New Zealand Dollar	-	47	47
Philippine Peso	-	12	12
Russian Ruble	-	529	529
Singapore Dollar	-	368	368
South African Rand	-	135	135
South Korean Won	-	315	315
Swedish Krona	-	143	143
Swiss Franc	-	1,716	1,716
Thailand Baht	-	41	41
Other	474	391	865
Total	\$ 5,362	\$ 34,794	\$ 40,156

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2. Universities-Affiliated Component Units

a. Investment Summary

Investments of the Universities-affiliated component units include the following amounts at June 30, 2008. All investments are stated at fair value (expressed in thousands):

	ASU			
	ASU	Foundation	U of A	NAU
	Foundation	Investments Held in Trust	Foundation	Foundation
Money market funds and cash equivalents	\$ 52,023	\$ 610	\$ -	\$ 18,867
U.S. Government/Agency obligations and mutual funds	-	-	70,646	14,804
Domestic/international equity securities and mutual funds	291,172	51,462	132,117	29,279
Fixed income	91,290	13,401	20,470	-
REIT fund, real estate, and timber partnerships	-	-	22,473	-
Absolute return limited partnerships and funds	-	-	121,501	-
Other investments	62,970	2,708	26,799	9,207
Total Investments	<u>\$ 497,455</u>	<u>\$ 68,181</u>	<u>\$ 394,006</u>	<u>\$ 72,157</u>

b. Endowment Trust Agreement

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

C. PROGRAM LOANS

The WIFA has made loans to local governments and others in Arizona to finance various projects pursuant to the requirements of the Clean Water and Safe Drinking Water Acts. The loans are generally payable in semi-annual installments due January 1 and July 1 of each year, including interest. However, several loans are payable monthly or quarterly. Changes in the program loans during fiscal year 2008 are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Clean Water Fund	\$ 462,232	\$ 171,853	\$ (33,360)	\$ 600,725
Drinking Water Fund	220,143	93,002	(16,107)	297,038
Total	<u>\$ 682,375</u>	<u>\$ 264,855</u>	<u>\$ (49,467)</u>	<u>\$ 897,763</u>

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

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

D. PLEDGES RECEIVABLE

Unconditional promises to give are included in the accompanying financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises to give are recorded at their net realizable value using various yields as determined by the university foundations. Unconditional promises as of June 30, 2008 include the following (expressed in thousands):

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	ASU Foundation	Sun Angel Foundation
Gross pledges receivable	\$ 170,905	\$ 11,043
Present value discount	(27,200)	(1,070)
Allowance for uncollectible pledges	(6,150)	-
Net Pledges Receivable	<u>\$ 137,555</u>	<u>\$ 9,973</u>

The discount rates for the ASU Foundation's pledges receivable range from 3.80% to 10.90%, while the Sun Angel Foundation uses a discount rate of 5.14%.

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 is \$28.220 million.

2. ACFFC

Pursuant to a Sublease Agreement, Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the Research Park to the ASU, which will pay rent at times and in amounts sufficient to pay all principal and interest on the Series 2004 Bonds, as well as all fees and expenses related to the Series 2004 Bonds. The Sublease Agreement is a net lease, and Nanotechnology is entitled to receive the rents and all other sums payable pursuant to the Sublease Agreement free from all taxes, charges, fees, and expenses, all of which will be paid by the ASU. During fiscal year 2008, the ASU remitted payments totaling \$1.800 million which is recorded as rental revenue in the accompanying financial statements.

The Sublease Agreement commenced on April 7, 2004, and continued until June 30, 2005, with successive automatic annual renewals for the period July 1 through June 30 of each year without action on the part of Nanotechnology or the ASU, through the period ending March 31, 2034. The Sublease Agreement is subject to early termination by Nanotechnology or the ASU upon payment in full of the Series 2004 Bonds. Upon termination or expiration of the Sublease Agreement, Nanotechnology's interest in the premises, including all buildings and improvements on the leased premises, transfers to the ASU without further consideration. Therefore, the lease is classified as a direct financing capital lease.

Lease payments are based on a variable interest rate currently determined on a weekly basis. The interest rate in effect at June 30, 2008 was 10%. The average interest rate for fiscal year 2007 and 2008 was 4.34% and 4.82%, respectively. Lease payments commenced once the Capitalized Interest Accounts had been fully utilized, which was in fiscal year 2007. ACFFC's net investment in this direct financing lease is \$35.000 million.

In addition, there is a \$12.000 million net investment in a direct financing lease by ACFFC for the Hassayampa Academic Building facility.

3. NACFFC

On May 19, 2005, the NAU entered into a lease purchase agreement with the NACFFC. During the 28 year lease term, the NAU will make lease payments on two apartment style student housing complexes, Pine Ridge Village and McKay Village. The NACFFC recorded a sales-type lease receivable of \$13.225 million in fiscal year 2005 for the Pine Ridge complex. The agreement also provided for the NAU's lease purchase agreement of the McKay Village complex for \$22.685 million in fiscal year 2007. Upon expiration of the lease, the real property will become the sole property of the NAU without further cost. On September 1, 2006, the NAU entered into a lease purchase agreement with the NACFFC. During the 30 year lease term, the agreement provides for the NAU lease purchase of the convention center/parking garage complex for \$12.400 million in fiscal year 2008. Upon expiration of the lease, the real property will become the sole property of the NAU without further cost.

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F. CAPITAL ASSETS

Capital asset activity for the UMC for the fiscal year ended June 30, 2008 was as follows (expressed in thousands):

University Medical Center					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments & Reclassifications</u>	<u>Ending Balance</u>
Non-depreciable capital assets:					
Land	\$ 5,617	\$ 2,372	\$ -	\$ 19	\$ 8,008
Construction in progress	24,563	52,679	-	(20,831)	56,411
Total Non-depreciable Capital Assets	30,180	55,051	-	(20,812)	64,419
Depreciable capital assets:					
Buildings	184,848	6,671	-	19,043	210,562
Improvements other than buildings	791	56	(56)	(19)	772
Equipment	133,633	12,612	(4,277)	1,788	143,756
Total Depreciable Capital Assets	319,272	19,339	(4,333)	20,812	355,090
Less accumulated depreciation for:					
Buildings	(104,160)	(8,621)	-	-	(112,781)
Improvements other than buildings	(348)	(56)	56	-	(348)
Equipment	(99,959)	(14,267)	4,140	-	(110,086)
Total Accumulated Depreciation	(204,467)	(22,944)	4,196	-	(223,215)
Total Depreciable Capital Assets, Net	114,805	(3,605)	(137)	20,812	131,875
Total UMC Capital Assets, Net	<u>\$ 144,985</u>	<u>\$ 51,446</u>	<u>\$ (137)</u>	<u>\$ -</u>	<u>\$ 196,294</u>

Capital assets for the Universities-affiliated component units for the fiscal year ended June 30, 2008 include the following (expressed in thousands):

	ASU Foundation	ACFFC
Buildings and improvements	\$ 17,397	\$ 187,954
Furniture, fixtures, and equipment	7,084	39,750
Construction in progress	-	15,359
Other property and equipment	-	661
Total cost or donated value	24,481	243,724
Less: Accumulated Depreciation	(3,088)	(25,388)
Total Property and Equipment, Net	<u>\$ 21,393</u>	<u>\$ 218,336</u>

G. LONG-TERM OBLIGATIONS

1. Component Units

a. Water Infrastructure Finance Authority

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

On April 1, 2008, the WIFA issued \$238.710 million of Water Quality Revenue Bonds, Series 2008A (2008A Bonds). The 2008A Bonds include \$238.710 million of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from October 1, 2009 to October 1, 2028. The 2008A Bonds maturing on or after October 1, 2019 are subject to optional redemption without premium on or after October 1, 2018. The 2008A Bonds were sold with net original issue premium of \$19.039 million. The WIFA realized net proceeds of \$240.000 million after payment of \$1.544 million for underwriters' discounts and issuance costs, and deposit to a debt service reserve fund of \$16.205 million. The net proceeds from the 2008A

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Bonds are being used to fund certain loans by the WIFA to finance water quality projects and to reimburse the WIFA for monies previously loaned for those purposes.

In prior fiscal years, the WIFA refinanced various bond issues through advance-refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. The amount outstanding on the refunded bonds for the WIFA at June 30, 2008 totaled \$91.215 million.

The \$6.926 million deferred amount on retirement of bonds is being amortized over the lives of the defeased bonds on a straight-line basis. The amortization for the year ended June 30, 2008 is \$554 thousand. Amortization has been offset against interest expense.

Bond premiums are being amortized over the life of the bonds. The amortization for the year ended June 30, 2008 is \$2.484 million. Further, bond issuance costs are amortized over the life of the bond and offset to interest expense. The amortization for the year ended June 30, 2008 is \$258 thousand.

b. University Medical Center

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture). In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property.

The UMC has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds, which totaled \$15.882 million at June 30, 2008, are held by the trustee and are reflected as restricted investments held by trustee in the accompanying financial statements. These principally consist of guaranteed investment contracts, collateralized by U.S. Treasury Securities, and mortgage-backed government securities.

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

c. Arizona Power Authority

In prior years, the APA defeased various issues of bonds by purchasing U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide future debt service until the call dates. As a result, those bonds are considered to be defeased and the liability has been removed from the Hoover Upgrading Fund. Accordingly, these trust account assets and related liabilities are not included in the accompanying financial statements.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2008 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2008
Component Units:				
Water Infrastructure Finance Authority	1995-2008	2009-2029	2.00-6.10%	\$ 770,260
University Medical Center	1993-2006	2009-2036	4.82-5.53%	229,130
Arizona Power Authority	2001-2004	2009-2018	5.00-5.25%	49,015

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2008 are as follows (expressed in thousands):

Annual Debt Service Water Infrastructure Finance Authority				Annual Debt Service University Medical Center			
Fiscal Year	Principal	Interest	Total	Fiscal Year	Principal	Interest	Total
2009	\$ 27,420	\$ 35,623	\$ 63,043	2009	\$ 4,040	\$ 11,590	\$ 15,630
2010	29,095	35,327	64,422	2010	4,145	11,390	15,535
2011	31,520	33,995	65,515	2011	4,295	11,186	15,481
2012	39,455	32,386	71,841	2012	4,515	10,973	15,488
2013	37,060	30,575	67,635	2013	4,745	10,748	15,493
2014-2018	210,965	123,414	334,379	2014-2018	27,620	49,947	77,567
2019-2023	231,480	69,050	300,530	2019-2023	35,310	42,424	77,734
2024-2028	151,765	17,230	168,995	2024-2028	45,065	32,901	77,966
2029	11,500	288	11,788	2029-2033	57,515	20,747	78,262
Total	\$ 770,260	\$ 377,888	\$ 1,148,148	2034-2036	41,880	5,253	47,133
				Total	\$ 229,130	\$ 207,159	\$ 436,289

Annual Debt Service Arizona Power Authority			
Fiscal Year	Principal	Interest	Total
2009	\$ 3,450	\$ 2,447	\$ 5,897
2010	3,815	2,265	6,080
2011	4,220	2,065	6,285
2012	4,585	1,844	6,429
2013	4,810	1,603	6,413
2014-2018	28,135	3,844	31,979
Total	\$ 49,015	\$ 14,068	\$ 63,083

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

d. Changes in Long-Term Obligations

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

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008	Due Within One Year	Due Thereafter
Water Infrastructure Finance Authority:						
Long-term Debt:						
Revenue bonds	\$ 557,450	\$ 238,710	\$ (25,900)	\$ 770,260	\$ 27,420	\$ 742,840
Revenue bond premium	35,244	19,039	(2,484)	51,799	-	51,799
Deferred amounts, net	(7,480)	-	554	(6,926)	-	(6,926)
Total Long-term Debt	<u>585,214</u>	<u>257,749</u>	<u>(27,830)</u>	<u>815,133</u>	<u>27,420</u>	<u>787,713</u>
Other Long-term Liabilities:						
Compensated absences	<u>46</u>	<u>69</u>	<u>(50)</u>	<u>65</u>	<u>65</u>	<u>-</u>
Total Other Long-term Liabilities	<u>46</u>	<u>69</u>	<u>(50)</u>	<u>65</u>	<u>65</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 585,260</u>	<u>\$ 257,818</u>	<u>\$ (27,880)</u>	<u>\$ 815,198</u>	<u>\$ 27,485</u>	<u>\$ 787,713</u>
University Medical Center:						
Long-term Debt:						
Revenue bonds	\$ 232,966	\$ 190	\$ (4,026)	\$ 229,130	\$ 4,040	\$ 225,090
Revenue bond premium and discounts	(1,210)	-	(52)	(1,262)	-	(1,262)
Total Long-term Debt	<u>231,756</u>	<u>190</u>	<u>(4,078)</u>	<u>227,868</u>	<u>4,040</u>	<u>223,828</u>
Other Long-term Liabilities:						
Compensated absences	11,846	6,721	(5,722)	12,845	6,720	6,125
Other	<u>1,078</u>	<u>4,776</u>	<u>(1,810)</u>	<u>4,044</u>	<u>-</u>	<u>4,044</u>
Total Other Long-term Liabilities	<u>12,924</u>	<u>11,497</u>	<u>(7,532)</u>	<u>16,889</u>	<u>6,720</u>	<u>10,169</u>
Total Long-term Obligations	<u>\$ 244,680</u>	<u>\$ 11,687</u>	<u>\$ (11,610)</u>	<u>\$ 244,757</u>	<u>\$ 10,760</u>	<u>\$ 233,997</u>
Arizona Power Authority:						
Long-term Debt:						
Revenue bonds	\$ 52,135	\$ -	\$ (3,120)	\$ 49,015	\$ 3,450	\$ 45,565
Revenue bond premium and discounts	2,115	-	(341)	1,774	-	1,774
Deferred amounts, net	(1,442)	-	232	(1,210)	-	(1,210)
Total Long-term Debt	<u>52,808</u>	<u>-</u>	<u>(3,229)</u>	<u>49,579</u>	<u>3,450</u>	<u>46,129</u>
Other Long-term Liabilities:						
Compensated absences	<u>81</u>	<u>36</u>	<u>(50)</u>	<u>67</u>	<u>67</u>	<u>-</u>
Total Other Long-term Liabilities	<u>81</u>	<u>36</u>	<u>(50)</u>	<u>67</u>	<u>67</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 52,889</u>	<u>\$ 36</u>	<u>\$ (3,279)</u>	<u>\$ 49,646</u>	<u>\$ 3,517</u>	<u>\$ 46,129</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2008

2. Universities-Affiliated Component Units

A summary of bonds payable as of June 30, 2008 include the following (expressed in thousands):

	<u>Final Maturity</u>	<u>Amount</u>
ASU Foundation:		
Series 2004A Variable Rate Revenue Bonds	2034	\$ 22,420
Series 2004B Variable Rate Revenue Bonds	2022	10,835
Series 2003 Lease Revenue Term Bonds	2034	47,020
Capital Lease	2011	2,800
ACFFC:		
Series 2005A Variable Rate Demand Revenue Bonds	2045	96,700
Series 2005B Variable Rate Demand Revenue Bonds	2045	48,345
Series 2005 Tax Exempt Bonds	2035	16,005
Series 2004A Variable Rate Demand Lease Revenue Bonds	2034	20,175
Series 2004B Variable Rate Demand Lease Revenue Bonds	2034	14,825
Series 2004 Variable Rate Demand Revenue Bonds	2030	51,605
Series 2003 Serial and Term Bonds	2035	13,305
Series 2002 Bonds	2018	26,470
Series 2000 Serial and Term Bonds	2032	10,265
Unamortized bond premium		839
Downtown Phoenix Student Housing:		
Series 2007B Serial Bonds	2012	785
Series 2007 Serial Bonds	2042	9,080
Series 2007 Tax-Exempt Bonds	2042	119,039
Unamortized Bond Discount		(1,294)
NACFFC:		
Series 2008 Refunding Bonds	2033	36,780
North Campus Lease Revenue Serial and Term Bonds	2036	12,400

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

<u>Fiscal Year</u>	<u>ASU Foundation</u>	<u>ACFFC</u>	<u>Downtown Phoenix Student Housing</u>	<u>NACFFC</u>
2009	\$ 1,723	\$ 3,060	\$ -	\$ 620
2010	1,799	5,410	700	785
2011	1,875	6,025	755	850
2012	1,988	6,615	530	915
2013	1,755	7,380	710	985
Thereafter	73,935	270,044	124,915	45,025
Total	<u>\$ 83,075</u>	<u>\$ 298,534</u>	<u>\$ 127,610</u>	<u>\$ 49,180</u>

H. ACCOUNTING CHANGES AND CORRECTION OF ERRORS

Net Assets for the Universities-affiliated component units have been restated as follows (expressed in thousands):

<u>Restatement of Net Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, June 30, 2007, as previously reported	\$ 76,530	\$ 398,173	\$ 653,720	\$ 1,128,423
Change in application of an accounting principle	(654)	-	-	(654)
Prior year correction of errors	114	119	-	233
Net assets, July 1, 2007, as restated	<u>\$ 75,990</u>	<u>\$ 398,292</u>	<u>\$ 653,720</u>	<u>\$ 1,128,002</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

The accompanying financial information for fiscal year 2007 has been restated for the Mesa Student Housing, LLC and the ASU Alumni Association (Association). The restatement for the Mesa Student Housing, LLC reflects management's change in method of depreciation of the leasehold improvements to the terms of the underlying lease, whereas the assets had been previously depreciated over 40 years in prior years. The required adjustments have been reflected as prior period adjustments in the financial statements for the year ended June 30, 2008. The net effect to beginning accumulated depreciation and unrestricted net assets was a change of \$654 thousand.

Also, during fiscal year 2008, the Association's management reviewed its membership agreements and accounting policy for membership dues. Upon this review, the Association's management determined that, based upon the level of tangible benefits provided to its members, the Association's membership dues meet the definition of contributions as the dues represent voluntary nonreciprocal transfers of assets from its members to the Association. In conformity with SFAS No. 116, contributions should be recognized as revenues or gains in the period received or receivable. In previous years, the membership dues were accounted for as exchange transactions. As a result of the SFAS No. 116 reinterpretation, the temporarily restricted and unrestricted net asset balances as of July 1, 2007 were restated. The prior period adjustment resulted in increases in unrestricted net assets of \$114 thousand and temporarily restricted net assets of \$119 thousand as of July 1, 2007.

I. CONDUIT DEBT

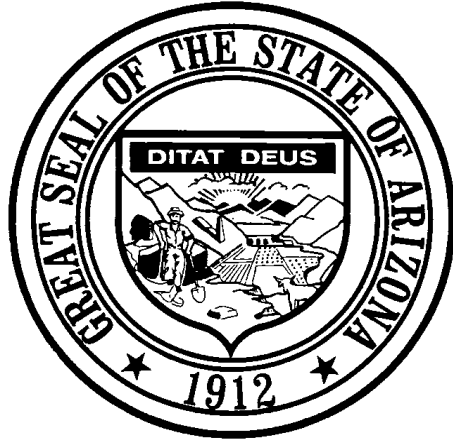
During the year ended June 30, 2008, the Greater Arizona Development Authority (GADA) issued \$26.505 million of Bonds, Series 2007B for public infrastructure projects in the communities of the City of Cottonwood, the City of El Mirage, the City of Wilcox, Apache County, and the Three Points Fire District. During the year ended June 30, 2008, the GADA issued \$27.760 million of Bonds, Series 2008A for public infrastructure projects in the communities of the City of Williams, Lake Havasu City, the City of Safford, the City of Show Low, Douglas, the Picture Rocks Fire District, Pinal County, the Rio Rico Fire District, and Thatcher. 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. Eligible applicants include cities, towns, counties, Indian tribes, and certain special districts. Principal and interest are payable semiannually. 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 \$20.000 million to the GADA for the express purpose of securing bonds issued by the GADA. As of June 30, 2008, the remaining balance in the appropriations account was \$19.174 million including interest earned. Although issued in the name of the GADA, loans funded through the GADA bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to ARS §41-1554.08, the GADA's bonds do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net assets of \$8.800 million in the Pledged Collateral Reserve Fund. As such, the Series 2007B and 2008A bonds do not constitute a legal debt of the State and are not enforceable against the State. At June 30, 2008, the total outstanding face value of all bonds issued by the GADA was \$352.085 million.

J. RELATED PARTY TRANSACTIONS

The UMC and the U of A both provide and receive services from each other under various contracts. Payments to the U of A by the UMC include mission and program support, resident and intern salaries, utilities, ground maintenance, mailroom operations, and various administrative functions. Amounts paid to the U of A for these services were approximately \$28.780 million for the year ended June 30, 2008. At June 30, 2008, future commitments under mission support agreements totaled approximately \$13.500 million, payable through June 30, 2013.

The UMC has entered into contractual agreements with the U of A to provide support for the academic mission of the U of A. Charges to the U of A for such services and facilities provided by the UMC were approximately \$9.970 million for the year ended June 30, 2008. This amount is included in other operating revenue in the accompanying combined financial statements.



REQUIRED
SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
GENERAL FUND			
General Accounting Office			
Assistant Attorney General Salary Adjustments	\$ 2,595,800	\$ 5,300	\$ 0
Capital Outlay - Cochise	1,060,600	1,060,600	1,060,600
Capital Outlay - Coconino	423,800	423,800	423,800
Capital Outlay - Gila	133,400	133,400	133,400
Capital Outlay - Graham	510,100	510,100	510,100
Capital Outlay - Maricopa	11,204,000	11,204,000	11,204,000
Capital Outlay - Mohave	591,200	591,200	591,200
Capital Outlay - Navajo	1,505,700	1,505,700	1,505,700
Capital Outlay - Pima	3,198,900	3,198,900	3,198,900
Capital Outlay - Pinal	797,600	797,600	797,600
Capital Outlay - Yavapai	703,900	703,900	703,900
Capital Outlay - Yuma/La Paz	924,800	924,800	924,800
Equalization Aid - Cochise	4,669,700	4,669,700	4,669,700
Equalization Aid - Graham	13,146,500	13,146,500	13,146,500
Equalization Aid - Navajo	4,305,200	4,305,200	4,305,200
Equalization Aid - Yuma/La Paz	1,372,400	1,372,400	1,372,400
General Relief	0	179,821	179,821
General Relief FY06 - 07	0	0	(16,811)
Health Insurance Adjustments	20,245,000	35,600	0
HR Pro Rata Adjustments	242,100	0	0
LP and PLTO Adjustments	995,100	3,200	0
Nursing Education Demonstration Project	0	4,000,000	4,000,000
Operating State Aid - Cochise	8,401,400	8,401,400	8,401,400
Operating State Aid - Coconino	3,334,600	3,334,600	3,334,600
Operating State Aid - Gila	620,500	620,500	620,500
Operating State Aid - Graham	5,370,400	5,370,400	5,370,400
Operating State Aid - Maricopa	57,528,300	57,528,300	57,528,300
Operating State Aid - Mohave	4,196,900	4,196,900	4,196,900
Operating State Aid - Navajo	4,412,300	4,412,300	4,412,300
Operating State Aid - Pima	19,593,500	19,593,500	19,593,500
Operating State Aid - Pinal	6,052,000	6,052,000	6,052,000
Operating State Aid - Yavapai	4,820,400	4,820,400	4,820,400
Operating State Aid - Yuma/La Paz	5,722,700	5,722,700	5,722,700
Rent Adjustments	2,801,000	10,900	0
Retirement Adjustments	16,000,000	481,200	0
Risk Management Adjustments	1,753,000	300	0
Salary Adjustments	68,755,000	0	0
Telecommunications Adjustments	5,509,800	0	0
Woolsey Flood District	0	43,626	43,625
Department of Administration			
Administrative Adjustments	0	127,174	127,174
Administrative Adjustments	0	86,755	86,755
Administrative Adjustments	0	128,527	128,527
Administrative Adjustments	0	52,305	52,305
Arizona Financial Information System	1,032,400	1,115,200	1,039,613
Building Renewal COSF FY00 - 01	10,186	10,186	0
Building Renewal FY05 - 06	408,017	408,017	370,141
Building Renewal FY06 - 07	2,594,259	2,534,417	2,330,062
Building Renewal FY06 - 07	2,625,144	2,625,144	1,192,922
Building Renewal FY07 - 08	7,257,100	6,382,750	1,572,762
Cash Transfer to General Fund	0	4,170,200	4,170,200

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, 2008
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Classification Pilot Program FY93 - 94	122,454	122,454	0
County Attorneys' Immigration Enforcement	0	2,430,000	2,430,000
DJC HVAC and Electrical Renovations	885,000	885,000	309,991
ENSCO	7,289,400	7,289,400	7,289,400
HB1464 Personnel Reform FY98 - 99	273,045	273,045	0
HRIS Certificate of Participation	4,239,100	4,239,100	4,239,100
Old Health Laboratory Renovation	2,207,000	1,207,000	0
Operating Lump Sum Appropriation	20,250,200	19,489,400	18,899,371
Operating Lump Sum Appropriation	5,503,700	5,606,800	4,895,704
Operating Lump Sum Appropriation	13,761,200	14,103,500	13,559,453
Operating Lump Sum Appropriation	1,222,100	1,262,600	1,205,488
Operating Lump Sum Appropriation	429,600	451,700	151,019
Other Funds Cash Transfer to General Fund	46,600	46,600	46,600
Other Funds Cash Transfer to General Fund	0	108,900	108,900
Other Funds Cash Transfer to General Fund	0	8,000	8,000
Other Funds Cash Transfer to General Fund	0	9,700	9,700
Other Funds Cash Transfer to General Fund	0	2,200	2,200
PLTO 1 Backfill Agency Relocations FY01 - 02	4	4	0
PLTO 1 Backfill Agency Relocations FY02 - 03	243,490	243,490	0
PLTO 1 Backfill Space Renovations FY01 - 02	847	847	0
PLTO 1 Backfill Space Renovations FY02 - 03	348,161	348,161	0
PLTO 1 Backfill Space Renovations FY02 - 03	106,402	106,402	0
PLTO 1 Project Management FY01 - 02	1	1	0
PLTO 1 Project Management FY02 - 03	55,659	55,659	0
PLTO 1 Project Management FY03 - 04	144,694	144,694	0
Prison Cell Locks/Door Replacement	5,200,000	3,200,000	1,274,868
Prison Cell Locks/Door Replacement FY06 - 07	5,102,162	5,102,162	883,600
Relocation	60,000	60,000	149
Relocation FY00 - 01	60,000	60,000	0
Relocation FY01 - 02	59,026	59,026	0
Relocation FY02 - 03	59,775	59,775	1,625
Relocation FY06 - 07	60,000	60,000	26,617
Relocation FY99 - 00	46,526	46,526	0
State Boards Lump Sum Appropriation	260,000	284,600	263,914
State Surplus Property Sales Proceeds	3,000,000	3,000,000	1,504,053
Statewide Telecommunications Mgmt Contract Lease Pymt	851,800	851,800	851,739
Utilities	625,700	625,700	625,700
Utilities	5,733,800	5,733,800	5,733,800
Utilities Supplemental	1,466,100	1,466,100	1,346,252
Radiation Regulatory Agency			
Administrative Adjustments	0	4,790	4,790
General Fund Transfer to NEMF - SB 1037	0	592,241	592,200
Operating Lump Sum Appropriation	1,593,900	1,570,900	1,548,574
Other Funds Cash Transfer to General Fund	0	4,300	4,300
Office of Equal Opportunity			
Operating Lump Sum Appropriation	245,200	249,200	249,200
Attorney General			
Administrative Adjustments	0	278,150	278,150
Administrative Adjustments	0	13,461	13,461
Crane Elementary School Case FY03 - 04	22,055	22,055	1,066
HB2620 Cash Transfer to General Fund	0	158,400	158,400
Legal Arizona Workers Act	0	100,000	3,997
Military Installation/Planning FY05 - 06	2	2	0
Military Installation/Planning FY06 - 07	37,037	37,037	37,037

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Military Installation/Planning FY07 - 08	0	100,000	67,633
Operating Lump Sum Appropriation	21,653,300	23,894,000	23,715,572
Operating Lump Sum Appropriation	12,337,200	13,319,800	13,127,629
Property Tax Supplemental	301	301	0
State Grand Jury	160,000	177,600	177,600
Department of Agriculture			
Administrative Adjustments	0	21,648	21,648
Agricultural Employment Relations Board	23,300	23,300	17,000
Animal Damage Control	65,000	65,000	65,000
Operating Lump Sum Appropriation	11,784,000	11,804,300	11,776,377
Red Imported Fire Ant	23,200	23,200	23,200
Arizona State University			
Biomedical Informatics	3,017,800	3,017,800	3,017,800
Downtown Phoenix Campus	33,297,800	34,333,800	34,333,800
Operating Lump Sum Appropriation - Main Campus	329,794,500	338,697,500	338,697,500
Operating Lump Sum Appropriation - East Campus	23,778,500	24,554,200	24,554,200
Operating Lump Sum Appropriation - West Campus	51,719,500	52,739,000	52,739,000
Phx Biomedical Campus Schematic Design	5,250,000	0	0
Research Infrastructure Lease Purch-Pymt-Polytechnic	0	917,000	917,000
Research Infrastructure Lease-Purch Pymt	0	13,555,000	13,555,000
Student and Faculty Retention	15,064,000	15,064,000	15,064,000
Auditor General			
Operating Lump Sum Appropriation FY01 - 02	148,319	148,319	148,319
Operating Lump Sum Appropriation FY02 - 03	293,330	293,330	0
Operating Lump Sum Appropriation FY03 - 04	375,518	375,518	0
Operating Lump Sum Appropriation FY04 - 05	405,827	405,827	0
Operating Lump Sum Appropriation FY05 - 06	584,183	584,183	0
Operating Lump Sum Appropriation FY06 - 07	2,083,792	2,083,792	0
Operating Lump Sum Appropriation FY07 - 08	17,891,900	17,883,200	17,480,086
Procurement Study	300,000	291,000	0
Department of Financial Institutions			
Document Imaging	75,000	0	0
Operating Lump Sum Appropriation	3,757,100	3,883,300	3,882,742
State Board of Nursing			
CNA Fingerprinting	166,000	167,300	125,459
Fingerprinting Nursing Assistants	90,198	0	0
Arizona Board of Regents			
Administrative Adjustments	0	641	641
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Math and Science Teacher Initiative	2,250,000	1,375,000	1,375,000
Operating Lump Sum Appropriation	2,322,000	2,398,600	191,489
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	116,000	116,000	116,000
WICHE Student Subsidies	4,115,000	4,115,000	4,104,281
Corporation Commission			
Administrative Adjustments	0	218	218
HB2620 Cash Transfer to General Fund	0	500	500
Operating Lump Sum Appropriation	5,542,500	5,697,900	5,655,587
Operating Lump Sum Appropriation	48,300	51,100	47,899
Railroad Warning Systems	47,510	47,510	0
Court of Appeals Division I			
Administrative Adjustments	0	1,500	1,500
Division I - Operating Lump Sum Appropriation	9,500,400	9,761,100	9,761,042

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
State Board for Charter Schools			
Administrative Adjustments	0	12,302	12,302
Operating Lump Sum Appropriation	1,091,900	1,131,800	811,380
Court of Appeals Division II			
Division II - Operating Lump Sum Appropriation	4,229,000	4,321,700	4,319,033
Department of Corrections			
Administrative Adjustments	0	9,910,588	9,910,588
All Other Operating Expenditures	0	0	(225,400)
All Other Personal Services	798,900	831,045	328,253
All Other PS and ERE	94,374,186	95,198,130	95,181,520
Cash Transfer to General Fund	0	800,000	800,000
Correctional Officer PS and ERE	389,675,991	426,727,681	426,698,781
County Jail Beds	866,200	825,600	679,229
Electronic Monitoring of Sex Offenders	634,331	634,331	538,106
Employee Related Expenditures	303,600	324,355	123,284
Health Care All Other Operating Expenditures	70,083,700	68,183,700	66,019,432
Health Care PS and ERE	47,738,023	52,697,689	52,644,850
Non-Health Care All Other Operating Expenditures	180,000	180,000	180,000
Non-Health Care All Other Operating Expenditures	113,274,200	108,751,900	107,213,154
Operating Lump Sum Appropriation	0	0	(9,592)
Other Funds Cash Transfer to General Fund	0	6,000	6,000
Overtime Compensatory Time	23,827,000	19,390,100	19,351,486
Private Prison Per Diem	52,478,300	52,959,500	51,108,308
Provisional Beds	87,299,400	66,079,600	65,377,738
Department of Economic Security			
ADM Attorney General Legal Services	659,600	751,719	751,719
ADM Attorney General Legal Services	162,000	167,900	150,094
ADM Attorney General Legal Services	16,600	17,300	3,431
ADM Federal Reed Act Grant 4050	259,200	259,200	0
ADM Finger Imaging	459,400	461,293	461,293
ADM Finger Imaging	276,600	127,500	99,655
ADM High Performance Bonus FY00 - 01	21,489	21,489	0
ADM Lease Purchase Equipment	1,138,000	1,138,000	1,138,000
ADM Lease Purchase Equipment	661,000	661,000	376,050
ADM Operating Lump Sum Appropriation	32,766,600	33,874,039	33,870,139
ADM Operating Lump Sum Appropriation	5,015,200	5,105,800	5,091,335
ADM Operating Lump Sum Appropriation	1,127,000	1,148,000	949,208
ADM Public Assistance Collections	250,900	258,700	174,410
ADM Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	0
ADM Workforce Investment Act - Operating Lump Sum	0	260,000	0
Administrative Adjustments	0	10,316,543	10,316,543
Administrative Adjustments	0	4,705,916	4,705,916
Administrative Adjustments	0	16,325,301	16,325,301
Administrative Adjustments	0	8,879,472	8,879,472
Administrative Adjustments	0	15,686,543	15,686,543
Administrative Adjustments	0	271,500	271,500
Administrative Adjustments	0	7,728,426	7,728,426
Administrative Tri-agency Disaster Recovery	271,500	271,500	271,500
Coolidge Environment Impact Study FY96 - 97	4,948	0	0
DACS - TANF Short-Term Crisis Services FY99 - 00	2	2	0
DACS Adult Services	19,277,700	19,277,700	16,771,983
DACS Community and Emergency Services	5,424,900	5,424,900	4,836,820
DACS Coordinated Homeless Program	1,155,400	1,155,400	1,141,264
DACS Coordinated Homeless Program	1,649,500	1,649,500	1,484,885

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, 2008
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DACS Coordinated Hunger Program	1,514,600	1,514,600	1,480,955
DACS Coordinated Hunger Program	500,000	500,000	376,234
DACS Domestic Violence Prevention	8,326,700	8,326,700	7,126,972
DACS Domestic Violence Prevention	6,620,700	6,620,700	5,985,303
DACS Grandparent Kinship Care	331,457	331,457	331,457
DACS Hopi Assisted Living Center	142,500	142,500	142,500
DACS Hopi Senior Center Kykotsmovi FY00 - 01	22,097	0	0
DACS Lifespan Respite Care Program	0	249,924	51,162
DACS Marriage and Comm. Skills Prog Fund	1,200,000	950,000	950,000
DACS Marriage Handbook FY00 - 01	540	540	0
DACS Marriage Skills Training FY00 - 01	9,301	9,301	0
DACS Navajo Nation Multipurpose Center	1,000,000	1,000,000	1,000,000
DACS Navajo Nation Senior Centers	45,000	45,000	0
DACS Navajo Senior Center	0	350,000	205,241
DACS Navajo Senior Center - Bird Springs FY98 - 99	0	65,000	0
DACS Navajo Senior Center - Dilcon FY98 - 99	0	30,000	0
DACS Navajo Senior Center - White Cone FY98 - 99	0	30,000	0
DACS Operating Lump Sum Appropriation	6,579,400	6,827,232	6,822,432
DACS Operating Lump Sum TANF	239,600	247,500	218,599
DACS Serving Homeless Excess	36,289	36,485	35,486
DACS Serving Homeless Excess	0	169,946	169,939
DACS Tribal Senior Center - Navajo FY01 - 02	0	46,351	0
DACS Marriage and Communication Skills FY00 - 01	20,983	20,983	0
DACS-Navajo Nation Multipurpose Facility FY06 - 07	450,000	450,000	0
Day Care Subsidy Care TANF	8,020,300	53,320,300	49,699,401
DBME Document Management	494,600	494,478	494,478
DBME Eligibility System Upgrade (ASRP)	963,300	85,000	0
DBME FLSA Supplemental - TANF	508,900	858,900	508,900
DBME General Assistance FY07 - 08	3,060,800	2,130,800	1,979,917
DBME Operating Lump Sum Appropriation	24,671,100	26,620,267	26,620,267
DBME Operating Lump Sum Appropriation	10,017,400	11,728,300	11,578,300
DBME TANF Cash Benefits	45,850,800	85,200,800	84,969,295
DBME TANF Cash Benefits	79,297,200	33,997,200	33,984,038
DBME Tribal Pass-Through Funding	4,288,700	4,365,168	3,859,876
DBME Tuberculosis Control	32,200	17,200	14,773
DCSE Attorney General Legal Services	718,200	818,119	818,119
DCSE Attorney General Legal Services	9,239,000	9,672,500	8,596,969
DCSE Central Payment Processing	444,700	444,700	444,700
DCSE Central Payment Processing	3,275,700	3,375,700	2,146,452
DCSE County Participation	6,845,200	8,045,200	6,707,953
DCSE Genetic Testing	122,400	122,400	122,400
DCSE Genetic Testing	360,000	360,000	158,520
DCSE Operating Lump Sum Appropriation	7,596,900	7,719,508	7,719,508
DCSE Operating Lump Sum Appropriation	44,355,500	50,874,200	44,145,914
DCYF Permanent Guardianship Subsidy	859,300	859,300	644,475
DCYF Adoption Service Family Preservation Project	1,000,000	1,000,000	289,476
DCYF Adoption Services - Academic Tutoring	300,000	0	0
DCYF Adoption Services (DCFS)	36,242,200	37,362,667	37,362,667
DCYF Adoption Services Family Preservation FY05 - 06	1,000,000	1,000,000	0
DCYF Adoption Services TANF	10,686,100	11,886,100	11,886,100
DCYF Attorney General Legal Services	10,765,900	12,190,468	12,190,468
DCYF Attorney General Legal Services	50,400	52,200	200
DCYF Child Support Services TANF - SSBG	5,371,700	5,371,700	3,956,198
DCYF Children Support Services	45,403,300	40,803,300	40,803,300

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DCYF Children Support Services	10,757,400	23,515,700	17,551,761
DCYF Comprehensive Med and Dental (DCFS)	2,057,000	2,057,000	2,057,000
DCYF CPS Appeals	705,200	732,097	732,097
DCYF CPS Substance Abuse Treatment	224,500	224,500	224,500
DCYF Education and Training Vouchers	700,000	375,000	329,241
DCYF Education and Training Vouchers FY06 - 07	38,687	(109,280)	(109,281)
DCYF Emergency Placement	672,700	672,700	654,959
DCYF Emergency Placement	2,180,100	2,180,100	2,180,100
DCYF Emergency Placement TANF - SSBG	2,333,700	2,333,700	2,333,700
DCYF Family Builders TANF (DCYJ)	5,200,000	5,200,000	5,181,458
DCYF Foster Care Placement	1,148,700	2,190,400	2,018,679
DCYF Foster Care Placement	17,139,500	21,739,500	21,579,195
DCYF Foster Care Placement TANF - SSBG	5,074,400	5,074,400	4,862,908
DCYF Healthy Families	8,715,800	5,715,800	5,715,800
DCYF Healthy Families	5,034,200	5,034,200	5,034,200
DCYF Homeless Youth Intervention	400,000	400,000	367,650
DCYF Independent Living Maintenance	3,136,000	3,136,000	3,136,000
DCYF Intensive Family Services	1,985,600	1,985,600	1,985,600
DCYF Joint Substance Abuse Treatment	5,000,000	5,000,000	4,241,793
DCYF Operating Lump Sum Appropriation	59,309,900	61,372,911	61,372,911
DCYF Operating Lump Sum Appropriation	29,106,000	31,444,200	27,895,548
DCYF Permanent Guardianship Subsidy	7,192,300	6,492,300	6,308,072
DCYF Resident Placement TANF - SSBG	9,833,300	9,833,300	9,833,300
DCYF Residential Placement	6,543,400	6,543,400	6,543,400
DCYF Residential Placement	1,333,300	1,333,300	1,301,990
DCYF Substance Abuse Treatment	2,000,000	2,000,000	1,835,800
DCYF Substance Abuse Treatment	600,000	600,000	600,000
DDD Arizona Training Program At Coolidge	546,900	81,482	77,494
DDD Case Management	4,366,000	4,531,153	4,531,153
DDD Children's Autism Intensive Behavior	1,800,000	0	0
DDD Children's Autism Intensive-Toddlers	500,000	500,000	205,281
DDD Dental Pilot Program	556,481	556,481	508,607
DDD Home and Community Based Services	35,799,400	35,870,199	34,451,341
DDD Home and Community Based Services	848,100	848,100	0
DDD Institutional Services	294,900	174,900	153,657
DDD Operating Lump Sum Appropriation	3,984,700	3,865,785	3,865,785
DDD State Funded LTC Services	762,900	2,962,900	2,921,746
DDD State Funded LTC Services	24,148,700	24,152,800	22,064,496
DERS CCA Sliding Fee Scales TANF FY98 - 99	2,544,378	2,544,378	120,644
DERS Daycare Subsidy	69,785,800	73,785,800	68,370,623
DERS Daycare Subsidy	84,482,900	39,182,900	38,751,417
DERS Federal Reed Act Grant 4050	3,236,500	3,236,500	0
DERS Independent Living Rehabilitation Services	1,284,200	784,200	735,812
DERS Jobs	1,823,300	1,425,200	1,425,200
DERS Jobs	2,000,000	2,000,000	57,839
DERS Jobs	17,613,100	17,387,600	15,845,824
DERS Operating Lump Sum Appropriation	9,471,900	9,775,435	9,720,620
DERS Operating Lump Sum Appropriation	5,712,800	5,897,400	4,271,838
DERS Operating Lump Sum Appropriation	10,108,000	10,508,800	10,443,474
DERS Summer Youth Employment and Training	1,250,000	1,250,000	1,250,000
DERS Transitional Child Care	36,193,000	32,193,000	29,727,999
DERS Vocational Rehabilitation Services	5,214,400	4,714,400	4,714,400
DERS Workforce Investment Act Operating Lump Sum	2,210,200	2,022,600	0
DERS Workforce Investment Act Programs	48,040,600	48,040,600	33,066,709

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
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(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DERS Workforce Investment Act-Discretionary	3,614,000	3,614,000	2,633,973
DES Statewide Building Renewal FY92 - 93	20	0	0
HB2620 Cash Transfer to General Fund	0	25,000,000	25,000,000
LTC Arizona Training Program-Coolidge	16,344,600	17,513,200	15,876,947
LTC Arizona Training Program-Coolidge	5,421,400	5,690,699	5,690,699
LTC Case Management	12,742,700	13,261,339	13,261,339
LTC Case Management	37,703,200	36,185,400	32,740,325
LTC Fee-For-Service and Reinsurance	1,237,600	1,237,600	1,237,600
LTC Fee-For-Service and Reinsurance	3,669,000	9,669,000	5,195,262
LTC Home and Community Based Services	189,667,600	203,268,878	203,268,878
LTC Home and Community Based Services	562,266,000	610,285,700	565,283,951
LTC Institutional Services	4,444,200	4,486,384	4,486,384
LTC Institutional Services	13,475,700	18,315,300	17,561,041
LTC Medical Services	38,561,000	38,585,118	38,585,118
LTC Medical Services	113,636,900	98,520,000	97,001,835
LTC Medicare Clawback Payments	2,184,400	2,184,400	2,184,400
LTC Operating Lump Sum Appropriation	10,772,100	12,446,505	12,446,505
LTC Operating Lump Sum Appropriation	31,951,700	36,891,400	31,892,016
Statewide Building Renewal	0	355,000	355,000
Statewide Building Renewal FY06 - 07	0	25,000	25,000
Summer Youth Program FY00 - 01	32,446	0	0
Department of Juvenile Corrections			
Administrative Adjustments	0	255,190	255,190
Building Renewal FY91 - 92	39	39	0
Building Renewal FY94 - 95	3,794	0	0
Operating Lump Sum Appropriation	77,945,300	80,353,700	79,764,326
Operating Lump Sum Appropriation	2,682,500	2,682,500	2,337,239
Department of Transportation			
Operating Lump Sum Appropriation	82,900	84,600	75,995
Department of Education			
Accountability Measures FY00 - 01	50	0	0
Achievement Testing	7,900,200	7,905,900	7,905,900
Additional State Aid to Schools	359,013,100	366,134,800	366,134,800
Administrative Adjustments	0	9,568,789	9,568,789
Adult Education Assistance	4,468,900	4,477,900	4,477,900
AIMS Intervention; Dropout Prevention	5,550,000	5,550,000	5,550,000
Alternative Teacher Development Program	1,000,000	984,173	984,173
Arizona Government Education Fund	0	100,000	100,000
Arizona Master Teacher Program	3,000,000	2,606,232	2,606,232
Basic State Aid Entitlement	3,804,249,700	3,485,128,000	3,395,435,835
Basic State Aid Base Level Increase	0	46,000,000	46,000,000
Chemical Abuse	819,900	720,728	717,604
Compensatory Instruction Fund Deposit	10,000,000	10,000,000	10,000,000
Disabled Pupil Scholarships	2,500,000	2,500,000	0
Displaced Pupils Choice Grant Program	2,500,000	2,500,000	0
Employee Discipline and Risk Mgmt Techniques	0	400,000	399,998
English Language Acquisition Services	4,964,500	5,025,500	5,025,500
English Language Acquisition Services FY05 - 06	928,537	928,537	928,537
English Language Acquisition Services FY06 - 07	4,605,441	4,605,441	1,341,279
English Learner Classroom Bonus Fund FY02 - 03	3,113	(3)	(1,020)
English Learner Classroom Bonus Fund FY03 - 04	0	(150,466)	(150,466)
English Learner FTE FY02 - 03	2,389	0	0
English Learner FTE FY03 - 04	2,634	0	0

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
English Learner FTE FY04 - 05	645	645	645
English Learner Instruction FY02 - 03	294,672	(105)	(105)
English Learner Instruction FY03 - 04	8,953	0	0
English Learner Instruction FY04 - 05	1,007,407	(68,484)	(68,484)
English Learner Materials and Supplies FY02 - 03	690	0	0
English Learner Materials and Supplies FY03 - 04	213,317	0	0
English Learner Materials and Supplies FY04 - 05	203,922	(1,134)	(1,134)
English Learner Pilot	26,799	0	0
English Learner Pilot	342	0	0
English Learner Teacher	4,499,979	4,341,094	897,122
English Learner Teacher	2,350,741	19,786	19,786
English Learner Teacher	115	(356,214)	(356,214)
Extended School Year	500,000	500,000	499,976
Family Literacy	1,009,100	928,275	928,275
Family Literacy Program FY98 - 99	1,373	0	0
Gifted Support	3,380,100	3,260,257	3,260,257
Information Technology	2,493,700	2,493,700	2,493,700
Math and Science Initiatives	2,500,000	1,871,543	2,250
Non-Formula Programs-Operating '08	1,123,100	989,499	989,499
Non-Formula Programs-Operating '08	212,000	217,700	217,700
Operating Lump Sum - Administration	6,330,500	6,672,187	6,670,855
Operating Lump Sum Appropriation	685,800	438,869	314,768
Operating Lump Sum Appropriation	371,900	383,600	326,821
Optional Performance Incentive Programs	120,000	0	0
Other Funds Cash Transfer to General Fund	0	23,000	23,000
Other State Aid to Districts '07	983,900	983,900	686,005
Parental Choice for Reading Success	1,000,000	1,000,000	975,000
Physical Education Pilot Program	110,000	85,832	85,832
Physical Education Pilot Program FY06 - 07	449,379	449,379	426,606
Reading First Initiative	0	664,139	664,139
School Accountability	39,400	39,400	39,400
School Finance Admin '07	2,133,400	1,989,008	1,989,008
School Safety Program	6,722,700	6,728,300	6,103,579
School Safety Program FY00 - 01	2,044	0	0
School Safety Program FY02 - 03	67,484	67,484	67,484
School Safety Program FY06 - 07	131,489	131,489	123,661
Small Pass-through Programs	581,600	581,600	581,600
Special Education Fund	35,235,500	35,237,700	35,237,700
State Block Grant for Early Childhood Education	19,446,300	18,372,049	18,372,049
State Block Grant for Vocational Education	11,400,500	11,467,200	11,467,200
Statewide Standards for Professional Development Design	150,000	0	0
Teacher Certification	1,746,600	1,782,200	1,782,200
Vocational Education Extended Year	600,000	138,443	39,104
Department of Commerce			
Agriculture Preservation District	26,747	26,747	0
Apprenticeship Services Office	179,200	188,800	188,421
Arizona 21st Century Competitive Initiative Fund	0	25,000,000	25,000,000
Commerce And Econ Development Commission	0	25,000,000	25,000,000
Commerce And Econ Development Commission FY05 - 06	22,447,000	22,447,000	7,634,998
Greater Arizona Development Authority	2,000,000	931,000	931,000
HB2620 Cash Transfer to General Fund	0	1,300	1,300
International Trade Offices	1,330,500	997,200	799,765
Military Base Economic Research Study	0	50,000	0
Military Installation GF Transfer	0	4,540,000	4,540,000
Military Installation Operating FY04 - 05	24,830	0	0

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
Military Installation Operating FY05 - 06	6,172	6,172	0
Military Installation Operating FY06 - 07	5,114	5,114	0
Military Installation Operating FY07 - 08	0	75,000	68,180
Motion Picture Development	337,700	354,100	335,036
Motion Picture Production Tax Incentive Admin	0	180,000	111,899
NAFTA Agreement Projects FY95 - 96	37,777	0	0
NAFTA Projects - Initial Phase FY95 - 96	19,874	0	0
Operating Lump Sum Appropriation	4,018,900	4,036,700	3,544,228
Operating Lump Sum Appropriation	139,500	144,700	140,394
Rural Economic Development	323,900	323,600	319,433
State Board of Equalization			
Operating Lump Sum Appropriation	653,500	656,000	638,934
Department of Environmental Quality			
Administrative Adjustments	0	61,293	61,293
Air Quality Management and Analysis	511,900	0	0
Aquifer Protection Permit Program	0	788,700	787,903
Arizona Pollution Discharge Elimination	1,481,800	0	0
Counties Travel Deduction Plan	1,676,900	1,676,900	1,676,825
Drinking Water Regulation Program	1,627,100	0	0
Drinking Water Revolving Loan Program	893,200	669,900	669,900
Operating Lump Sum Appropriation	4,354,900	12,766,200	12,763,088
Operating Lump Sum Appropriation	10,531,100	12,397,600	2,714,363
Other Funds Cash Transfer to General Fund	0	78,200	78,200
Relief Bill Cash Transfer FY08	0	932	932
Surface Water Regulation Program	1,175,600	0	0
Underground Water Regulation Program	2,064,100	0	0
Waste Control and Management	1,973,900	0	0
Water Infrastructure Finance Authority	1,551,900	1,425,200	1,425,200
Water Supply Development Fund	250,000	0	0
Game and Fish Department			
Wildlife Habitat Restoration Projects FY06 - 07	1,891,832	1,891,832	1,891,832
Arizona Geological Survey			
Administrative Adjustments	0	1,247	1,247
Earth Fissure Maps	80,697	80,697	80,519
Operating Lump Sum Appropriation	1,073,900	1,102,300	1,101,121
Government Information Technology Agency			
Administrative Adjustments	0	126,933	126,933
E-Health Initiative	1,500,000	1,399,900	851,471
Operating Lump Sum Appropriation	3,700,000	3,700,000	348,599
Operating Lump Sum Appropriation	2,755,800	2,809,000	2,799,460
Other Funds Cash Transfer to General Fund	0	32,000	32,000
SW Information Security & Privacy Office	0	500,000	497,428
Governor's Office			
Administrative Adjustments	0	38,983	38,983
Arizona - Sonora Study	5,200	0	0
Border Volunteer Corps	34,705	0	0
Emergency Fund	0	1,450,024	0
Governor's Telecommunication	504	0	0
Office of Sonora	7,783	0	0
Operating Lump Sum Appropriation - OSPB	2,209,900	2,244,200	2,230,740
Operating Lump Sum Appropriation FY01 - 02	2,520	2,520	2,520
Operating Lump Sum Appropriation FY02 - 03	92,829	92,829	92,829
Operating Lump Sum Appropriation FY03 - 04	63,886	63,886	63,886
Operating Lump Sum Appropriation FY04 - 05	250,143	250,143	250,143

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation FY05 - 06	321,938	321,938	321,938
Operating Lump Sum Appropriation FY06 - 07	146,246	146,246	(335,457)
Operating Lump Sum Appropriation FY07 - 08	7,134,800	7,274,500	6,621,096
Arizona Health Care Cost Containment System			
Administrative Adjustments	0	58,159,258	58,159,258
Administrative Adjustments	0	123,374,544	123,374,544
Administrative Adjustments	0	44,846,915	44,846,915
Arizona 211 Phone System	3,400,000	1,279,400	1,260,262
Board of Nursing	104,900	104,900	104,800
Breast and Cervical Cancer	503,300	253,300	239,737
Breast and Cervical Cancer	1,628,100	798,100	744,323
Breast and Cervical Cancer Trmt Federal Admin FY01 - 02	52,730	52,730	0
Breast and Cervical Cancer Trmt Federal Prog FY01 - 02	745,860	745,860	0
Breast and Cervical Cancer Trmt State Prog	73	0	0
Budget Neutrality Compliance	0	7,026,800	7,026,800
Capitation	524,283,200	555,841,177	553,831,898
Capitation	1,306,680,700	1,365,701,600	1,361,521,414
Chip - Parents	9,172,700	7,902,700	7,783,190
Chip - Services	27,416,400	26,601,000	26,562,743
Claims Computer System Replacement	500,000	0	0
Claims Computer System Replacement	1,590,900	0	0
Critical Access Hospitals	573,400	573,400	573,400
Critical Access Hospitals	1,126,600	1,126,600	1,125,400
DES Eligibility	25,494,700	30,966,700	30,966,700
DES Eligibility	28,203,500	30,820,700	27,423,400
DES Eligibility System Upgrade	1,300,000	100,000	94,889
DES Eligibility System Upgrade	1,300,000	100,000	55,589
DES Title XIX Pass Through	148,700	154,000	111,094
DES Title XIX Pass Through	196,600	203,800	129,327
Disproportionate Share Payments	8,837,900	8,837,923	0
Disproportionate Share Payments	21,512,100	21,512,100	4,202,300
DOA Data Center Charges	1,724,700	2,224,700	2,018,057
DOA Data Center Charges	3,992,800	5,368,300	4,847,220
Dual Eligible Part D Copay Subsidy/Acute	1,029,700	2,640,000	2,602,098
Dual Eligible Part D Copay Subsidy-LTC	470,300	949,000	870,445
Fee for Service	104,085,800	90,085,800	90,085,800
Fee for Service	393,280,700	344,780,700	342,208,464
Graduate Medical Education	14,894,000	13,394,000	0
Graduate Medical Education	29,262,600	29,262,600	0
Healthcare Group Admin and Reinsurance	8,000,000	7,250,000	7,250,000
Hospital Loan Residency Program	1,000,000	0	0
Hospital Loan Residency Program - GF	0	(100,000)	(100,000)
Indian Advisory Council	113,600	116,600	107,811
Indian Advisory Council	113,400	116,300	102,846
Kidscare Administration FY07 - 08	2,153,800	2,867,500	2,745,112
Long Term Care Board of Nursing	104,800	104,800	104,800
Medical Clawback Payments	9,277,700	9,277,700	9,277,700
Medical Clawback Payments - Acute Care	27,022,000	26,734,557	26,734,556
Medical Clawback Payments - LTC	11,151,200	11,151,200	9,947,540
Medicare Premiums	26,897,500	26,947,500	26,936,248
Medicare Premiums	65,031,100	65,031,100	64,817,968
Mental Health - Adults FY91 - 92	45,368	45,368	0

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
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 FOR THE YEAR ENDED JUNE 30, 2008
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
New and Expanded Grad Medical Educ Program	8,000,000	8,000,000	7,041,465
New and Expanded Grad Medical Educ Program	8,000,000	8,000,000	3,505,176
Office Of Administrative Hearings	269,700	271,300	211,724
Operating Lump Sum Appropriation	27,568,700	28,763,700	28,335,316
Operating Lump Sum Appropriation	133,949,500	133,949,500	133,949,500
Operating Lump Sum Appropriation	40,196,900	39,056,800	36,478,480
Operating Lump Sum Appropriation	965,380,300	965,380,300	908,026,145
Operating Lump Sum Appropriation FY05 - 06	0	0	(29)
Proposition 204 - Capitation	147,411,200	162,031,000	155,966,524
Proposition 204 - Capitation	61,455,100	61,455,100	57,773,983
Proposition 204 - Capitation	667,884,700	753,731,200	752,519,376
Proposition 204 - Capitation	92,004,100	114,004,100	114,004,100
Proposition 204 - County Hold Harmless	4,825,600	4,825,600	0
Proposition 204 - Fee-for-Service	35,529,200	33,529,200	32,311,365
Proposition 204 - Reinsurance	36,917,200	15,917,200	13,863,344
Proposition 204 Admin Oper 100% FPL Expansion	5,490,600	5,678,000	5,160,253
Proposition 204 Admin Oper 100% FPL Expansion FY05 - 06	0	0	(5)
Proposition 204 Admin Oper 100% FPL Expansion	5,539,100	4,717,500	4,598,086
Proposition 204 Fee-For-Service	140,007,400	134,537,400	131,668,493
Proposition 204 Medicare	18,906,600	19,376,600	19,276,716
Proposition 204 Pass Through Admin	19,696,500	16,664,700	16,662,033
Proposition 204 Pass Through Admin	16,400,500	16,137,300	14,222,233
Proposition 204 Pass Through Admin	2,683,100	2,683,100	2,683,100
Proposition 204-Reinsurance	72,523,800	26,523,800	24,590,801
Reinsurance	36,475,800	40,678,243	29,039,689
Reinsurance	71,656,700	68,871,700	66,922,067
Relief Bill Cash Transfer FY08	0	15,833	15,833
Rural Hospital Reimbursement	4,100,900	4,100,900	4,100,900
Rural Hospital Reimbursement	8,057,200	8,057,200	8,057,200
Temporary Medical Coverage	8,350,000	9,575,900	7,946,645
Temporary Medical Coverage	1,976,400	1,976,400	1,975,387
Ticket to Work	2,713,300	2,068,300	2,060,459
Ticket to Work	5,330,300	4,105,300	4,094,045
Office Of Administrative Hearings			
Operating Lump Sum Appropriation	1,213,900	1,284,500	1,284,500
Operating Lump Sum Appropriation	14,500	14,500	14,500
Arizona Historical Society			
Field Services and Grants	80,000	71,439	71,439
Operating Lump Sum Appropriation	2,339,900	2,357,661	2,357,661
Papago Park Museum	1,978,900	2,001,100	2,001,100
Papago Park Museum	193,200	193,200	193,200
House of Representatives			
Operating Lump Sum Appropriation FY00 - 01	587,324	587,324	145,129
Operating Lump Sum Appropriation FY01 - 02	425,313	425,313	0
Operating Lump Sum Appropriation FY02 - 03	842,055	842,055	0
Operating Lump Sum Appropriation FY03 - 04	593,819	593,819	0
Operating Lump Sum Appropriation FY04 - 05	1,012,781	1,012,781	3,113
Operating Lump Sum Appropriation FY05 - 06	1,901,541	1,901,541	0
Operating Lump Sum Appropriation FY06 - 07	2,004,484	2,004,484	6,742
Operating Lump Sum Appropriation FY07 - 08	13,854,800	13,855,200	12,152,113
Department of Health Services			
90/91 Environmental Assess Phoenix	8,849	0	0
Abstinence Funding	1,500,000	1,500,000	1,109,149
Administrative Adjustments	0	28,286	28,286

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Administrative Adjustments	0	19,475	19,475
Administrative Adjustments	0	60,179	60,179
Administrative Adjustments	0	167,353	167,353
Adult Cystic Fibrosis	105,200	105,200	105,200
Adult Sickle Cell Anemia	33,000	33,000	30,713
AHCCCS - Children's Rehabilitative Services	21,517,000	21,517,000	21,517,000
AHCCCS - Children's Rehabilitative Services	42,274,900	42,274,900	0
AIDS Reporting and Surveillance	1,125,000	1,125,000	1,089,256
Alzheimer Disease Research	3,000,000	3,000,000	3,000,000
Arizona State Hospital Accreditation FY92 - 93	3,140	3,140	0
Arizona Statewide Immunization Information System	503,200	517,500	495,982
Arnold v. Sarn	27,500,000	27,500,000	27,400,617
Arnold v. Sarn	9,823,600	9,823,600	0
Ash Condensate Receiver FY95 - 96	4,700	0	0
ASH Corrective Action Plan Supplemental FY04 - 05	398,060	398,060	0
Assurance and Licensure	9,692,800	10,004,300	9,850,921
Assurance and Licensure	805,100	829,200	811,667
Assurance and Licensure	331,100	340,300	320,360
Assurance and Licensure	902,600	950,200	0
Attorney General Legal Services	394,900	394,900	394,900
Autism Research	2,400,000	2,400,000	2,400,000
Breast and Cervical Cancer Screening	1,345,500	1,348,600	1,045,786
Building Renewal FY91 - 92	3,548	3,548	0
Building Renewal FY96 - 97	30	0	0
Cash Transfer to General Fund	0	400,000	400,000
Cash Transfer to General Fund	0	17,189,900	17,189,900
Cash Transfer to General Fund	0	500,000	500,000
Cash Transfer to General Fund	0	6,100,000	6,100,000
Children BHS-Tobacco Litigation FY00 - 01	1	1	0
Children's Behavioral Health Services	9,351,800	9,351,800	9,133,311
Children's Behavioral Health State Match for Title XIX	116,973,100	116,973,100	116,973,100
Children's Behavioral Health State Match for Title XIX	229,819,400	229,819,400	0
Children's Rehabilitative Services	3,587,000	3,587,000	3,587,000
Cholla - Sexual Predator FY96 - 97	11,655	0	0
Community Health Centers	10,464,900	10,481,300	10,381,406
Community Placement Treatment	5,574,100	5,574,100	5,546,230
Community Placement Treatment	1,130,700	1,130,700	1,125,047
Contract Compliance	2,461,100	1,961,100	1,961,100
Contract Compliance	4,835,400	4,835,400	0
County Nutrition Services	330,300	330,300	321,835
County Prenatal Services Grant	1,148,500	1,148,500	988,876
County Public Health	200,000	200,000	200,000
County Tuberculosis Provider Care and Control	1,410,500	1,410,500	1,035,462
Court Monitoring	197,500	197,500	197,500
Crisis Intervention Training Grants	250,000	250,000	0
Diabetes Prevention and Control	400,000	400,000	347,829
Direct Grants	460,300	460,300	460,300
Dual Eligible Part D Copay Subsidy	802,600	802,600	802,600
Electronic Medical Records	300,000	300,000	168,255
Health Start	226,600	226,600	162,217
Hepatitis C Surveillance	397,800	409,300	249,874
High Risk Perinatal Services	4,980,600	4,980,600	4,144,352
Indirect Cost Fund	7,763,300	8,035,000	7,648,518
Indirect Costs AHCCCS - CRS	0	350,000	350,000

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
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(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Institutions for Mental Disease	4,813,200	0	0
Institutions for Mental Disease	3,454,500	3,454,500	0
Kidney Program	50,500	50,500	46,292
Laboratory Services	4,227,700	4,357,900	4,125,023
Loan Repayment	100,000	100,000	63,838
Medicaid Special Exemption Payments	459,300	459,300	459,300
Medicaid Special Exemption Payments	902,400	902,400	0
Medicaid Special Exemption Payments	12,293,600	13,293,600	0
Medicaid Special Exemption Payments BHS	6,257,200	6,257,200	6,257,200
Medicare Clawback Payments	9,771,900	9,771,900	9,771,900
Mental Health - Non-Title XIX	2,447,300	2,447,300	2,444,063
Mental Health and Substance Abuse State Match for Title XIX	31,879,100	31,879,100	31,879,100
Mental Health and Substance Abuse State Match for Title XIX	62,633,500	65,155,300	0
Methamphetamine Prevention Services	130,000	130,000	130,000
Non-Renal Disease Management Program	100,000	0	0
Operating Lump Sum Appropriation	13,764,400	14,766,900	14,656,959
Operating Lump Sum Appropriation	50,143,600	51,732,100	51,249,338
Operating Lump Sum Appropriation	4,450,100	4,528,800	4,523,864
Operating Lump Sum Appropriation	3,704,100	3,684,200	3,633,156
Operating Lump Sum Appropriation	5,599,700	5,760,700	5,731,180
Operating Lump Sum Appropriation	4,842,200	4,901,900	4,535,374
Operating Lump Sum Appropriation	2,103,300	2,181,000	0
Operating Lump Sum Appropriation	4,857,700	5,063,900	0
Operating Lump Sum Appropriation	1,000,000	1,000,000	1,000,000
Operating Lump Sum Appropriation	1,578,100	1,578,100	1,558,821
Osteoporosis Prevalence	201,942	201,942	172,112
Other Funds Cash Transfer to General Fund	0	2,900	2,900
Other Funds Cash Transfer to General Fund	0	2,500	2,500
Other Funds Cash Transfer to General Fund	0	58,600	58,600
Poison Control Center Funding	925,000	925,000	693,750
Prop 204 - Administration	2,130,200	2,130,200	2,130,200
Prop 204 - Children's Behavioral Health Services	1,550,300	1,550,300	1,550,300
Prop 204 - General Mental Health and Substance Abuse	29,575,900	29,575,900	29,575,900
Prop 204 - Seriously Mentally Ill Services	54,532,000	54,532,000	54,532,000
Proposition 204 Administration Title XIX Match	4,404,600	4,404,600	0
Proposition 204 CBHS Title XIX Match	3,045,900	3,045,900	0
Proposition 204 GMH/SA Title XIX Match	58,108,400	60,844,000	0
Proposition 204 SMI Title XIX Match	107,140,100	114,740,100	0
Reg of Hear Aid Dispensers, Audiologists, and SL Pathologists	62,243	62,243	0
Reimbursement to Counties	67,900	67,900	67,900
Relief Bill Cash Transfer FY08	0	482	482
Renal and Non-Renal Disease Management	468,000	468,000	393,516
Renal Disease Management Program	16,667	16,667	16,667
Rural Detoxification and Follow-up Services	1,950,000	1,950,000	1,613,717
Rural Modular Dental Buildings	200,000	200,000	168,266
Scorpion Anti-venom	150,000	150,000	125,735
Senior Food Program	600,000	600,000	297,593
Seriously Emotionally Handicapped Child	500,000	50,000	7,650
Seriously Mentally Ill Non-Title XIX	30,691,900	33,505,100	33,366,927
Seriously Mentally Ill State Match for Title XIX	57,425,700	57,425,700	57,425,700
Seriously Mentally Ill State Match for Title XIX	112,825,400	124,225,400	0
Sexually Violent Persons	11,269,100	11,395,700	10,880,255

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, 2008
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
STD Control Subventions	26,300	26,300	23,048
Substance Abuse Non-Title XIX	12,135,400	12,135,400	12,053,661
TANF Prenatal Services FY99 - 00	47,270	47,270	0
Telemedicine	260,000	260,000	191,927
Teratogen Program	60,000	60,000	60,000
U of A Poison Control Center Funding	1,275,000	1,275,000	1,275,000
Vaccines	10,410,400	8,863,100	8,848,759
Valley Fever	300,000	300,000	261,581
Vital Records - Archiving, Cust Svc, Ops	18,903	18,903	2,188
Vital Records Electronic Systems	0	891,558	880,637
Vital Records Maintenance	500,300	499,700	471,089
Women's Services	500,000	501,500	385,452
Youth Methamphetamine Prevention Program	500,000	500,000	285,799
Arizona Commission on the Arts			
Community Service Projects	1,463,100	1,363,100	1,360,340
Operating Lump Sum Appropriation	625,000	667,600	663,110
Arizona Commission of Indian Affairs			
Administrative Adjustments	0	2,260	2,260
Operating Lump Sum Appropriation	223,300	234,300	212,301
Occupational Safety & Health Board			
Operating Lump Sum Appropriation FY00 - 01	1,000	1,000	0
Operating Lump Sum Appropriation FY01 - 02	6,947	0	0
Operating Lump Sum Appropriation FY02 - 03	4,800	4,800	0
Operating Lump Sum Appropriation FY03 - 04	4,800	4,800	0
Operating Lump Sum Appropriation FY04 - 05	4,800	4,800	0
Operating Lump Sum Appropriation FY98 - 99	3,354	3,354	558
Operating Lump Sum Appropriation FY99 - 00	1,000	1,000	0
Personal Services and Employee Rel Exp	75	0	0
Personal Services and Employee Rel Exp	53	0	0
Department of Insurance			
Managed Care and Dental Plan Oversight	601,700	635,600	627,300
Operating Lump Sum Appropriation	6,764,100	6,732,400	6,605,799
Other Funds Cash Transfer to General Fund	0	7,100	7,100
Arizona Criminal Justice Commission			
Administrative Adjustments	0	157,581	157,581
Criminal Justice Information Systems	900,000	0	0
Operating Lump Sum Appropriation	994,200	894,200	760,136
Rural State Aid to County Attorneys	157,700	157,700	157,700
Rural State Aid to Indigent Defense	150,100	150,100	149,885
Joint Legislative Budget Committee			
Operating Lump Sum Appropriation FY06 - 07	1,815,203	1,815,203	1,815,203
Operating Lump Sum Appropriation FY07 - 08	2,948,600	2,938,400	727,763
Department of Library, Archives, and Public Records			
Grants-in-Aid FY03 - 04	1,237	1,237	1,237
Grants-in-Aid FY04 - 05	400	400	400
Grants-in-Aid FY05 - 06	87,071	87,071	58,363
Grants-in-Aid FY06 - 07	91,764	91,764	13,746
Grants-in-Aid FY07 - 08	651,400	651,400	570,424
Historical Advisory Commission	50,000	50,000	3,317
Operating Lump Sum Appropriation	662,500	675,800	596,195
Operating Lump Sum Appropriation FY01 - 02	2,924	2,924	0
Operating Lump Sum Appropriation FY03 - 04	4	4	0
Operating Lump Sum Appropriation FY04 - 05	2,728	2,728	2,728
Operating Lump Sum Appropriation FY05 - 06	15	15	0

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

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STATE OF ARIZONA
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation FY06 - 07	363	363	353
Operating Lump Sum Appropriation FY06 - 07	76,877	76,877	76,877
Operating Lump Sum Appropriation FY07 - 08	6,787,900	6,785,300	6,778,517
Other Funds Cash Transfer to General Fund	0	4,800	4,800
Statewide Radio Reading Service for the Blind	97,000	97,000	97,000
Legislative Council			
Arizona Centennial Celebration	2,450,000	2,450,000	0
Juvenile Study FY97 - 98	19,520	19,520	0
Ombudsman-Citizens Aid Office FY06 - 07	3,942	3,942	3,942
Ombudsman-Citizens Aid Office FY07 - 08	593,000	593,000	465,098
Ombudsman-Citizens Aid Office FY93 - 94	43,000	43,000	0
Ombudsman-Citizens Aid Office FY94 - 95	95,169	95,169	0
Ombudsman-Public Access Laws	104,885	104,885	104,885
Operating Lump Sum Appropriation FY06 - 07	735,039	735,039	73,304
Operating Lump Sum Appropriation FY07 - 08	4,983,100	4,935,500	4,833,987
Operating Lump Sum Appropriation FY99 - 00	886,420	886,420	0
State Archives and History Building	8,000,000	6,000,000	0
State Archives and History Building FY05 - 06	7,764,890	7,764,890	7,764,345
State Archives and History Building FY06 - 07	15,000,000	15,000,000	12,564,859
Land Department			
Administrative Adjustments	0	51,212	51,212
CAP User Fees	1,268,600	1,143,600	1,143,600
Community Protection Initiative Fund	0	993,200	993,200
Due Diligence Fund	500,000	500,000	0
Earth Fissure Maps	182	182	0
Environmental County Grants	250,000	200,000	200,000
Fire Suppression Operating Expenses	2,653,900	2,850,200	2,844,401
In/Out of State Fire Costs	0	2,000,000	2,000,000
Inmate Fire Crews	974,300	1,208,400	1,189,945
Natural Resource Conservation Districts	430,000	390,000	390,000
Operating Lump Sum Appropriation	17,121,700	16,307,600	16,295,074
Department of Liquor Licenses and Control			
Improvement of Data Processing System FY05 - 06	1,250,000	0	0
Improvement of Data Processing System FY06 - 07	1,110,966	1,110,966	135,796
Operating Lump Sum Appropriation	3,534,100	3,487,900	3,464,471
Law Enforcement Merit System			
Operating Lump Sum Appropriation	74,200	76,900	76,855
Department of Emergency Management & Military Affairs			
2007 Monsoons	0	361,625	229,839
Arizona Pre-Suppression Wildfire Resources	35,789	28,179	28,179
Arizona/Mexico International Border Security	124,677	124,677	(3,990)
Aspen Fire Emergency	679,880	679,880	18,337
Bellefont/Prescott Boilers FY02 - 03	8,724	8,724	0
Brins Wildfire Emergency	6,960	(11,097)	(11,097)
Civil Air Patrol	54,200	54,200	27,100
February 2005 Winter Storms and Flooding FY06 - 07	631,223	631,223	544,133
February 2005 Winter Storms and Flooding FY07 - 08	0	677,689	2,386
Forest Health Emergency - Pine Bark Beetle FY02 - 03	12,341	12,341	41
Forest Health Emergency - Pine Bark Beetle FY03 - 04	45,879	45,879	0
Glassy-Winged Sharpshooter Emergency	361,685	361,685	112,061
Glassy-Winged Sharpshooter Emergency	1,567	1,567	0
Guardsmen Tuition Reimbursement	1,446,000	1,446,000	1,317,319
Hazard Materials Contingency	0	50,000	0
Hazard Materials Contingency	4,344	4,344	524

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

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STATE OF ARIZONA
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BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2008
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
January 2008 Severe Precipitation	0	200,000	27,365
La Paz County Summer Monsoon Emergency	261,296	261,296	206,052
La Paz/Maricopa Counties Storm Emergency FY01 - 02	59,434	59,434	563
La Paz/Maricopa Counties Storm Emergency FY03 - 04	105,336	105,336	72
Military Gift Package Postage	100,000	100,000	100,000
Mitigation Projects 2004 Emergency Funds	217,224	217,224	135,570
Navajo, Gila and Coconino Counties Rodeo Fire	323,080	323,080	3,978
Nogales and 52nd Street Building Renewal FY01 - 02	12,032	12,032	0
Nogales Wash Flooding 2007	0	200,000	129,741
Northern Arizona Winter Storm Emergency	0	166,445	0
Northern Arizona Winter Storm Emergency	390,899	390,899	309,697
Northern Arizona Winter Storm Emergency	158,931	158,931	158,761
Northern Arizona Winter Storm Emergency	1,940	1,940	0
Nuclear Emergency Management Fund	0	384,984	384,984
Nuclear Emergency Mgmt Fund - Buckeye	0	56,408	56,408
Nuclear Emergency Mgmt Fund - Maricopa	0	333,615	333,615
Off Site Nuclear Emergency FY89 - 90	1,708	1,708	0
Operating Lump Sum	1,910,332	1,924,000	1,922,734
Operating Lump Sum	1,848,900	1,982,200	1,979,094
Operating Lump Sum	926,068	945,600	945,600
Operation Good Neighbor	156,246	156,246	1,652
Pima County Flash Flood Emergency	95,049	1,997	1,997
Project Challenge Construction	0	100,000	0
Project Challenge Construction FY05 - 06	500,000	500,000	316,506
Project Challenge Construction FY06 - 07	500,000	500,000	0
Project Challenge Program	1,804,800	1,769,800	1,769,800
Replace Cooling Tower at Roosevelt FY05 - 06	50,000	50,000	0
Re-Roofing Mesa Armory FY97 - 98	1,325	0	0
Search and Rescue	0	160,000	150,985
Search and Rescue	70,209	70,209	69,780
September Terrorism Incident Emergency	106,977	60	60
Service Contracts	1,215,000	1,215,000	1,215,000
Service Contracts FY06 - 07	309,901	309,901	309,901
Summer 2006 Monsoons and Flooding	0	734,217	1,589
Summer 2006 Monsoons and Flooding	772,594	772,594	209,536
Uniform and Equipment Allowances	0	250,000	220,431
Mine Inspector			
Administrative Adjustments	0	8,930	8,930
Operating Lump Sum Appropriation	1,828,400	1,886,600	1,635,342
Department of Building and Fire Safety			
Administrative Adjustments	0	20,437	20,437
Operating Lump Sum Appropriation	3,789,500	3,611,500	3,610,096
Mines and Mineral Resources			
Operating Lump Sum Appropriation	839,900	962,700	924,197
Medical Student Loans Board			
HB2620 Cash Transfer to General Fund	0	179,000	179,000
Medical Student Financial Assistance	1,500,000	1,500,000	1,500,000
Medical Student Financial Assistance	309,800	309,800	155,261
Medical Student Financial Assistance FY06 - 07	0	1,176,852	342,965
Medical Student Loans FY05 - 06	3,944	3,944	0
Northern Arizona University			
NAU - Yuma	2,383,900	2,383,900	2,383,900
Operating Lump Sum Appropriation	141,687,800	145,253,600	145,253,600
Research Infrastructure Lease-Purch Pymt	0	5,900,000	5,900,000
Student and Faculty Retention	4,736,000	4,736,000	4,736,000

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Navigable Streams Adjudication Commission			
Administrative Adjustments	0	4,380	4,380
Operating Lump Sum Appropriation	173,600	180,800	174,900
Operational Supplemental	0	200,000	42,487
Personnel Board			
Administrative Adjustments	0	257	257
Operating Lump Sum Appropriation	357,900	372,400	348,962
State Capitol Post-Conviction Public Defender			
Operating Lump Sum Appropriation FY06 - 07	196,616	196,616	196,616
Operating Lump Sum Appropriation FY07 - 08	721,700	720,800	581,845
Commission for Postsecondary Education			
Case Managers	100,000	100,000	98,137
Leveraging Educational Assistance Prtshp	1,220,800	1,220,800	1,220,800
Postsecondary Education Grant Program	5,300,000	1,606,500	1,606,500
Private Postsecondary Ed Student Financial Asst Prog	800,000	800,000	800,000
Prescott Historical Society			
Building Renewal-Sharlot Hall Reroof FY01 - 02	19	19	0
Maintenance And Workshop Facility FY06 - 07	398,231	398,231	0
Operating Lump Sum Appropriation	734,000	762,600	762,600
Arizona Pioneers' Home			
Administrative Adjustments	0	36	36
All Other Operating Expenditures	828,000	769,700	769,697
PS/Employee Related Expenses (ERE)	408,000	427,300	354,280
Board of Executive Clemency			
Administrative Adjustments	0	1,308	1,308
Operating Lump Sum Appropriation	1,087,400	1,097,400	1,096,979
State Parks Board			
Acquisition And Development FY91 - 92	107,100	107,100	0
Administrative Adjustments	0	8,050	8,050
Administrative Adjustments	0	29,292	29,292
Arizona Trail	125,000	125,000	125,000
Kartchner Caverns State Park	2,535,800	2,535,800	2,439,075
Land Conservation Fund-General Fund	0	20,000,000	20,000,000
Operating Lump Sum Appropriation	7,775,000	7,741,700	7,659,358
Operating Lump Sum Appropriation	4,832,500	5,088,300	4,807,758
Other Funds Cash Transfer to General Fund	0	80,100	80,100
Tonto Lodge Roof Replacement FY04 - 05	99,966	99,966	468
Department of Public Safety			
Building Renewal - Project 917051 FY06 - 07	4,615	12,615	8,047
Building Renewal FY04 - 05	2	2	0
Building Renewal FY04 - 05	5,802	5,802	0
Building Renewal FY04 - 05	3,318	3,318	0
Building Renewal FY05 - 06	11,639	11,639	11,422
Carpet Replacement Project	0	80,350	44,961
DPS Headquarters Fire Alarm	0	120,000	37,766
GITEM - County Attorneys for Prosecution	0	1,000,000	65,939
GITEM - State Gang Intelligence Database	0	1,000,000	20,187
GITEM	18,916,600	19,799,700	16,965,696
GITEM - Gang Intelligence Team Enforcement	10,000,000	10,000,000	288,896
GITEM - Gang Intelligence Team Enforcement FY06 - 07	8,713,391	8,713,391	5,178,932
GITEM Supplemental FY05 - 06	331,709	331,709	331,709
Highway Patrol Safety Equipment	3,000,000	3,000,000	2,731,093
Microwave Communication System	0	1,000,000	637,843
Microwave Communication System FY06 - 07	1,497,273	1,497,273	811,502

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Motor Vehicle Fuel	3,704,200	3,704,200	3,702,603
Operating Lump Sum Appropriation	129,058,100	92,520,900	92,111,400
Operating Lump Sum Appropriation	205,000	205,000	0
Operating Lump Sum Appropriation	296,200	296,200	291,257
Statewide Emergency Water System Repairs FY06 - 07	0	10,898	10,898
Statewide HVAC Replacements	0	54,000	50,209
Statewide Interoperability - Phase II	2,509,048	2,509,048	2,150,547
Statewide Interoperability Design	1,329,400	1,383,300	893,375
Statewide Roof Replacements	0	200,000	200,000
Storage/Retrieval of ID Fingerprints	0	125,000	125,000
Sworn Officer Salary Adjustments	2,000,000	2,000,000	2,000,000
Department of Racing			
Administrative Adjustments	0	692	692
Operating Lump Sum Appropriation	2,747,900	2,690,400	2,673,745
Independent Redistricting Commission			
Operating Lump Sum Appropriation FY03 - 04	1,299,081	1,299,081	367,690
Real Estate Department			
Operating Lump Sum Appropriation	4,363,000	4,390,300	4,365,461
Rangers' Pension			
Operating Lump Sum Appropriation	13,400	13,400	13,400
Department of Revenue			
Administrative Adjustments	0	31,913	31,913
Administrative Adjustments	0	1,452,821	1,452,821
BRITS Operations	2,223,700	1,703,170	1,703,170
Cash Transfer to General Fund	0	1,132,800	1,132,800
Cash Transfer to General Fund	0	1,000,000	1,000,000
Kerr v. State of Arizona Lawsuit	0	0	6,813
Legal Arizona Workers Act - Employer Notice	0	70,000	69,898
Litigation Expenses	886,521	886,521	886,521
Operating Lump Sum Appropriation	419,600	427,800	284,423
Operating Lump Sum Appropriation FY07 - 08	71,263,800	71,845,330	71,699,104
Other Funds Cash Transfer to General Fund	0	15,200	15,200
Other Funds Cash Transfer to General Fund	0	3,100	3,100
Tax Credit Administration	0	30,000	30,000
Town Population Less Than 1500	850,000	850,000	850,000
Unclaimed Property Administration	1,629,000	1,654,000	1,645,355
Unclaimed Property Contract Auditor Fees	0	2,770,000	2,762,338
Schools for the Deaf and Blind			
Administrative Adjustments	0	1,441,291	1,441,291
Capital and Building Renewal Projects FY05 - 06	11,070	11,070	(11,112)
Operating Lump Sum - Phoenix	5,160,200	2,609,900	2,498,363
Operating Lump Sum - Preschool/Outreach	3,024,800	1,344,400	1,014,035
Operating Lump Sum - Regional Cooperatives	1,420,100	5,701,500	4,793,394
Operating Lump Sum - Tucson	10,388,700	11,660,800	11,059,086
School Bus Replacement-Phoenix	450,000	427,900	427,451
School Bus Replacement-Tucson	180,000	202,100	202,100
School Facilities Board			
Building Renewal	86,283,500	43,141,800	43,141,800
Energy and Water Savings Pilot Program	0	2,500,000	2,500,000
Full Day Kindergarten Capital Grants	484,205	484,205	0
New School Facilities	370,000,000	362,000,000	362,000,000
New School Facilities Debt Service	71,967,200	71,967,200	71,967,200
Operating Lump Sum Appropriation	1,856,900	1,948,400	1,822,277

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Senate			
Operating Lump Sum Appropriation FY05 - 06	93,409	93,409	93,409
Operating Lump Sum Appropriation FY06 - 07	1,228,652	1,228,652	1,228,652
Operating Lump Sum Appropriation FY07 - 08	9,193,000	9,183,100	7,531,548
Supreme Court			
Administrative Adjustments	0	23,314	23,314
Administrative Adjustments	0	9,747	9,747
Adult Intensive Probation	11,316,500	11,610,100	11,606,261
Adult Standard Probation	13,626,800	14,130,469	14,108,858
Automation	0	4,565,100	2,914,705
Automation	0	7,855,300	6,851,446
Case and Cash Management System	151,700	151,700	134,554
Case and Cash Management System	1,365,600	3,865,600	2,948,747
Cash Transfer to General Fund	0	1,500,000	1,500,000
Commission on Judicial Conduct	450,100	459,800	458,240
Community Punishment	524,400	543,300	534,432
County Reimbursements	246,000	238,800	238,412
Court Appointed Special Advocate	102,000	102,000	102,000
Courts Building Cooling Tower Renovation FY06 - 07	96,634	112,578	112,578
Courts Building Design Chiller & Thermal Storage	0	65,000	12,275
Domestic Relations	752,800	746,400	687,828
Drug Court	1,000,000	1,013,600	992,867
Drug Court FY06 - 07	51	51	(96,826)
Foster Care Review Board	2,369,700	2,444,800	2,324,296
Fourth Floor Chiller FY01 - 02	2,528	2,528	0
Global Position and Monitoring System GPS	750,000	356,800	228,624
Global Position and Monitoring System GPS FY06 - 07	413,562	413,562	346,696
HVAC Storage Tank FY01 - 02	1,211	1,211	0
Integrated Family Court	314	314	0
Interstate Compact	640,400	658,100	639,874
Judges Compensation	17,732,500	17,650,200	17,640,919
Judicial Nomination and Performance Review	314,100	326,200	322,364
Juvenile Family Counseling	660,400	660,400	655,136
Juvenile Intensive Probation	10,130,900	10,064,541	9,830,926
Juvenile Standard Probation	4,995,500	5,348,190	5,291,314
Juvenile Treatment Services	22,454,000	22,504,700	22,470,492
Model Court	514,300	507,300	463,938
Operating Lump Sum Appropriation	12,771,200	12,914,800	12,848,090
Operating Lump Sum Appropriation	687,000	676,500	565,115
Operating Lump Sum Appropriation	2,849,100	2,782,000	2,010,317
Other Funds Cash Transfer to General Fund	0	26,000	26,000
Other Funds Cash Transfer to General Fund	0	83,300	83,300
Probation Surcharge	2,723,800	3,421,500	3,421,044
Progressively Increasing Consequences	10,168,500	10,334,300	10,334,300
Repair/Rehab Cooling Tower, Courts Bldg FY04 - 05	5,311	5,311	5,197
Rural State Aid to the Courts	418,500	150,000	150,000
Special Water Master	20,000	20,000	0
State Aid	84,700	0	0
Secretary of State			
Administrative Adjustments	0	1,321	1,321
Administrative Adjustments	0	18,100	18,100
Election Services	4,361,000	4,387,800	4,366,684
Elections Video Recording of Ballots	0	75,000	75,000
Help America Vote Act	204,958	204,958	204,958
Help America Vote Act - Federal Funds	15,000,000	15,002,000	2,648,438

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, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	2,660,600	2,631,700	2,605,662
Operating Lump Sum Appropriation	94,800	98,200	0
Office of Tourism			
City Of Yuma - Arizona Welcome Center FY06 - 07	1,940,500	440,500	320,808
State Treasurer			
Administrative Adjustments	0	257,537	257,537
Community College Reimbursement ARS 15-1469.01	0	3,111,586	3,111,586
Corporate Income Tax Transfer	0	13,000,000	13,000,000
Justice of the Peace Salaries FY07 - 08	3,122,500	2,218,300	1,905,936
Operating Lump Sum Appropriation	3,240,100	3,230,400	3,219,765
Operating Lump Sum Appropriation	33,800	33,800	33,800
Rural County Reimbursement Subsidy	1,200,000	1,200,000	1,200,000
Transfer to Tourism Fund	0	15,874,622	15,874,622
Tax Appeals Board			
Operating Lump Sum Appropriation	305,200	310,500	269,434
University of Arizona			
Agriculture	33,606,600	34,897,000	34,897,000
Arizona Cooperative Extension	11,728,500	12,236,900	12,236,900
Clinical Rural Rotation	504,100	437,200	437,200
Clinical Teaching Support	9,812,200	9,919,900	9,919,900
Liver Research Institute	525,200	542,600	542,600
Operating Lump Sum - Health Sciences Center	53,194,200	55,009,700	55,009,700
Operating Lump Sum-Main Campus	270,149,700	275,369,400	275,369,400
Phoenix Biomedical Campus Schematic Design	5,250,000	0	0
Phoenix Medical Campus	12,009,600	12,164,100	12,164,100
Research Infrastructure Facilities	0	14,253,000	14,253,000
Sierra Vista Campus	3,745,300	3,850,600	3,850,600
Student and Faculty Retention	10,000,000	10,000,000	10,000,000
Telemedicine Network	2,213,100	2,230,700	2,230,700
Department of Veterans' Services			
Administrative Adjustments	0	291	291
Arizona State Veterans' Home	3,457,900	3,457,900	3,237,080
City of Tucson - Downtown WW II Memorial	100,000	100,000	100,000
Military Family Relief Fund	0	100,000	84,709
Nursing Home Project FY91 - 92	3,605	0	0
Nursing Home Project FY91 - 92	18,934	0	0
Nursing Home Project FY91 - 92	13,284	0	0
Operating Lump Sum Appropriation	2,034,300	2,122,400	2,121,947
Southern Arizona Cemetery	272,100	279,100	277,587
Southern Arizona Veterans Home FY06 - 07	10,000,000	0	0
Telemedicine Project	10,000	10,000	10,000
Veterans Benefits Counselors	3,104,000	3,186,200	2,997,635
Veterans' Organizations Contracts	29,200	29,200	29,200
Department of Water Resources			
Adjudication Support	2,105,000	2,105,000	2,104,876
Administrative Adjustments	0	7,105	7,105
Arizona Water Protection Fund Deposit	1,000,000	0	0
Assured and Adequate Water Supply Admin	1,700,000	1,700,000	1,693,822
Automated Groundwater Monitoring	500,000	506,200	505,975
Conservation and Drought Program	500,000	500,000	499,047
Dam Repair - City of Williams FY06 - 07	1,565	1,565	0

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, 2008
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	15,372,400	15,945,300	15,937,215
Rural Water Studies	1,999,100	2,006,600	1,340,586
Rural Water Studies FY06 - 07	284,794	284,794	284,794
Upper San Pedro Water District Technical Assistance	0	250,000	250,000
Department of Weights and Measures			
Administrative Adjustments	0	24,226	24,226
Operating Lump Sum Appropriation	1,651,600	1,604,700	1,603,354
Total General Fund Budgetary Expenditures before Adjustments	16,723,395,714	17,005,115,299	15,723,366,114
Less:			
Department of Health Services' appropriations for Children's Rehabilitative Services, Arnold v. Sarn, Assurance and Licensure, Title XIX State Match, Medicaid Special Exemption, and Contract Compliance that were duplicate expenditure authorizations	(649,009,800)	(674,314,800)	0
Total General Fund Budgetary Expenditures after Adjustments	<u>\$ 16,074,385,914</u>	<u>\$ 16,330,800,499</u>	<u>\$ 15,723,366,114</u>

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, 2008
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND			
Department of Administration			
Highway Hazards Assessments	\$ 150,000	\$ 150,000	\$ 145,000
Department of Transportation			
2003 Asbestos & Lead Inspections FY02 - 03	589,466	589,466	0
Abandoned Vehicle Administration	999,000	1,039,800	977,961
Airport Planning and Development	25,306,000	25,306,000	16,640,555
Airport Planning and Development FY 05 - 06	278,784	278,784	278,784
Airport Planning and Development FY 06 - 07	5,687,108	5,687,108	5,687,108
Alternate Truck Route - Douglas Chino Road FY03 - 04	250,000	250,000	0
Arizona - Mexico Border Points FY97 - 98	569	569	0
Asbestos and Lead Inspections FY01 - 02	108,288	108,288	10,290
Attorney General Legal Services	2,737,700	3,052,600	3,052,600
Building Renewal	141,100	141,100	57,706
Building Renewal	3,777,100	3,777,100	2,205,950
Building Renewal FY04 - 05	62,295	62,295	49,995
Building Renewal FY05 - 06	365	365	365
Building Renewal FY05 - 06	952,985	952,985	940,491
Building Renewal FY06 - 07	24,327	24,327	12,063
Building Renewal FY06 - 07	2,110,735	2,110,735	1,498,206
Cash Transfer to ADOA - Highway Hazards Assessment	150,000	150,000	150,000
Cash Transfer to General Fund	0	18,100,000	18,100,000
Cash Transfer to General Fund	0	2,000,000	2,000,000
Cash Transfer to General Fund	0	1,100,000	1,100,000
Cash Transfer to General Fund	0	5,400,000	5,400,000
De-Icer Buildings	1,850,000	1,850,000	50,871
De-Icer Buildings FY06 - 07	1,478,000	1,478,000	1,352,283
Douglas Maintenance Yard Admin Adjustment FY90 - 91	2,000	2,000	0
Douglas Weigh Station FY03 - 04	178,000	178,000	0
East Valley Maintenance Yard FY02 - 03	311,734	311,734	176,217
Far Southeast Valley Multiuse Facility	5,190,000	5,190,000	5,506
Far Southeast Valley Multiuse Facility	1,511,900	1,511,900	1,645
Fraud Investigation	993,400	993,400	360,314
Grand Canyon Airport Modular Housing FY 06 - 07	2,485,998	2,485,998	25,781
Grand Canyon Airport Restroom Renovation	210,000	210,000	1,056
Grand Canyon Airport Water Storage Tank Renovation	635,000	635,000	28,533
Highway Construction	239,801,800	309,801,800	256,246,630
Highway Construction FY06 - 07	31,936,272	31,936,272	31,936,272
Highway Maintenance	126,432,900	128,695,100	125,490,135
Highway Maintenance	558,700	558,700	558,636
Highway Maintenance FY 06 - 07	2,204,500	2,204,500	2,202,551
Highway to DPS Transfer	0	826,000	826,000
Highway to DPS Transfer - Double Load	10,000,000	10,000,000	10,000,000
HURF to DPS Transfer - Double Load	10,000,000	10,000,000	10,000,000
Lump Sum Appropriation-Motor Vehicle	68,600	71,700	71,700
Lump Sum Appropriation-Motor Vehicle	1,685,300	1,694,400	1,553,173
Lump Sum Appropriation-Motor Vehicle	2,195,500	2,222,600	2,022,066
Lump Sum Appropriation-Motor Vehicle	136,900	143,300	143,300
Lump Sum Appropriation-Motor Vehicle	384,900	384,900	351,657
Modular Trailer Operating Expenses FY00 - 01	7,519	7,519	0
Motor Carrier Towing Regulation FY04 - 05	11,108	11,108	0
MVD Computer System Assessment FY06 - 07	0	500,000	499,841

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

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STATE OF ARIZONA
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TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
MVD Electronic Certificate of Title Sys FY01 - 02	4,852	4,852	0
MVD Electronic Certificate of Title Sys FY02 - 03	13,488	13,488	0
MVD One-Time Trailer Fees Implementation FY01 - 02	43,724	43,724	0
MVD Security Enhancement Issues FY01 - 02	1	1	0
MVD Security Enhancement Issues FY02 - 03	958,487	958,487	175,378
New Third Party Funding	247,800	279,600	188,037
New Third Party Funding	75,000	78,300	74,779
New Third Party Funding	188,400	197,100	194,646
New Third Party Funding	222,500	232,100	232,100
Nogales Cyber Port Study FY03 - 04	300,000	300,000	0
Nogales Port of Entry FY98 - 99	2	2	0
Oil/Asphalt Storage Tanks	1,365,000	1,365,000	33,095
Oil/Asphalt Storage Tanks FY05 - 06	5,342	5,342	0
Oil/Asphalt Storage Tanks FY06 - 07	1,177,500	1,177,500	992,729
On-Line Verification of Social Security Numbers FY00 - 01	797	797	0
Operating Lump Sum Appropriation	2,567,600	2,625,100	2,585,888
Operating Lump Sum Appropriation	41,141,100	42,409,600	42,409,173
Operating Lump Sum Appropriation-HWYS	133,742,200	137,915,800	133,482,018
Operating Lump Sum Appropriation-Motor Vehicle	1,584,800	1,599,400	1,535,624
Operating Lump Sum Appropriation-Motor Vehicle	98,939,400	102,780,900	102,220,210
Other Funds Cash Transfer to General Fund	0	16,800	16,800
Other Funds Cash Transfer to General Fund	0	14,300	14,300
Other Funds Cash Transfer to General Fund	0	37,000	37,000
Other Funds Cash Transfer to General Fund	0	37,200	37,200
Payson Motor Vehicle Division Service Center	1,229,400	1,229,400	0
Payson MVD Service Center FY05 - 06	889,081	889,081	17,354
Roads of Regional Significance Congestion Mitigation	0	10,000,000	10,000,000
Safety, Security, Traffic Management and Control FY03 - 04	18,000	18,000	0
Safford Vehicle Maintenance Shop	3,215,000	3,215,000	3
San Luis Inspection Station	0	2,000,000	0
San Luis Poe Connector Road FY03 - 04	200,000	200,000	0
SEF to DPS Transfer - Double Load	1,564,100	1,564,100	1,564,100
Site Improvement - Nogales Inspection Station FY03 - 04	54,000	54,000	0
Special Projects FY98 - 99	30,868	30,868	0
Sprinklers/Fire Alarms FY05 - 06	980,417	980,417	950
Statewide Transportation Acceleration Needs - Highway	62,000,000	62,000,000	62,000,000
Surprise Motor Vehicle Division Service Center	3,956,300	3,956,300	176
Surprise Motor Vehicle Division Service Center FY06 - 07	910,694	910,694	546
Traffic Safety Improvement Agreements	0	600,000	600,000
Transport Acceleration Interest Reimbursement Account	0	10,000,000	10,000,000
Vehicle Wash Systems	2,021,300	2,021,300	70,188
Vehicles and Heavy Equipment Fuel Surcharge	1,000,000	1,000,000	1,000,000
Total Transportation and Aviation Planning, Highway Maintenance and Safety Fund Budgetary Expenditures	\$ 844,243,006	\$ 976,947,006	\$ 871,693,535

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, 2008

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, 2007 that affect available appropriations during fiscal year 2008. The final budget represents any appropriation bills passed during fiscal year 2008 for fiscal year 2008 plus the original budget. Appropriation bills passed after the end of fiscal year 2008 for fiscal year 2008 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):

	<u>General Fund</u>	<u>Transportation & Aviation Planning, Highway Maintenance & Safety Fund</u>
Uses/outflows of resources		
Actual expenditure amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 15,723,366	\$ 871,694
Differences – budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2007 to fiscal year end 2008.	277,790	417,073
Increase in unpaid payroll expenditures from fiscal year end 2007 to fiscal year end 2008. For budgetary reporting, final June 2008 payroll expenditures were charged to fiscal year 2009 budget.	7,539	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,100,915	-
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.	684,539	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	3,146	-
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2008.	3,792,033	1,651,256
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>(1,136,417)</u>	<u>(399,899)</u>
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 20,452,911</u>	<u>\$ 2,540,124</u>

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, 2008

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 each year to the Governor's Office of Strategic Planning and Budgeting. The budget is prepared by line item and/or program elements for each agency.

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

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

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

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

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

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

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

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

During the fiscal year, \$671.212 million in supplemental appropriations, net of mid-year reversions and adjustments, were provided to major and non-major governmental funds to enhance various programs. The General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund received \$281.720 million and \$132.704 million, respectively, and those amounts are included in the Budgetary Comparison Schedules.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2008

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 two ensuing years for which a budget report is required to be prepared.

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

All expenditures of the State's money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency's total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the \$229.819 million Department of Health Services Children's Behavioral Health State Match for Title XIX on **page 144**. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to "actual" expenditure amounts, duplicate expenditure authorizations have been eliminated from the General Fund's budget (appropriation) totals on **page 153**.

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2008

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,785 center lane miles (18,546 travel lane miles) of roads and 4,637 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 2009 and beyond was adopted by the Transportation Board on June 23, 2008.

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

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

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

Roads

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

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

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
 JUNE 30, 2008

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 2008, an overall rating of 3.91 was achieved, as shown in the following graph:

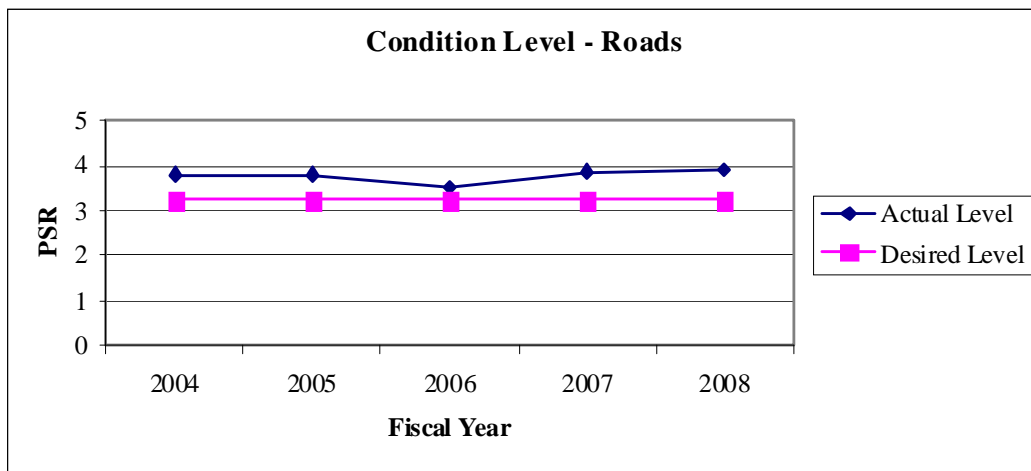


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2004 through 2008 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2004	\$198.5	\$218.5
2005	\$235.7	\$195.0
2006	\$218.5	\$211.5
2007	\$216.4	\$196.5
2008	\$260.7	\$247.9

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
 JUNE 30, 2008

Bridges

Bridges constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2008, the State owns and maintains 4,637 bridges with an approximate total deck area of 44,440,010 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assist bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

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

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

Management of the bridge inventory is a major function of the ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2008, the CRI was computed at 93.4%.

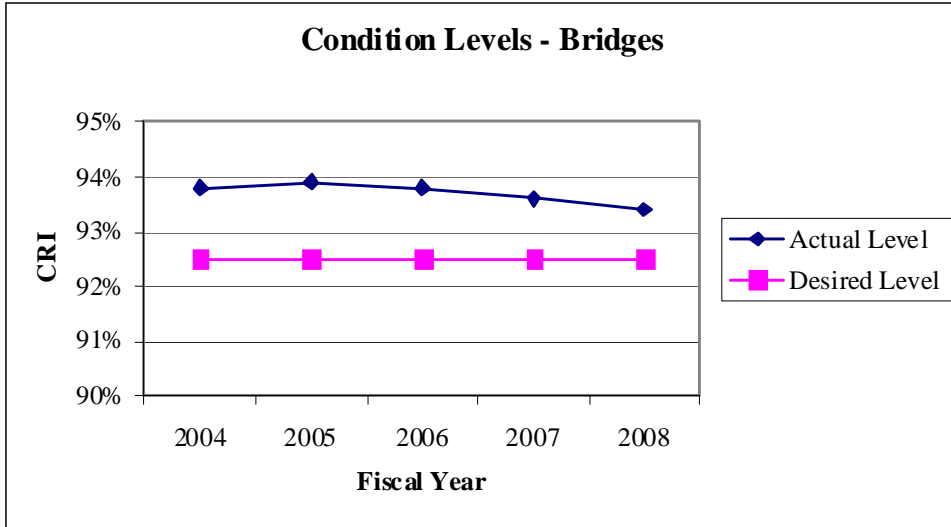


Figure 2

Bridges represent a major public investment and their inspection and maintenance is an essential function of the State in its mission of providing products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 60% of the bridges in the State were constructed prior to the 1970s while only 20% have been constructed in the last two decades.

Age of the ADOT's Bridge Population

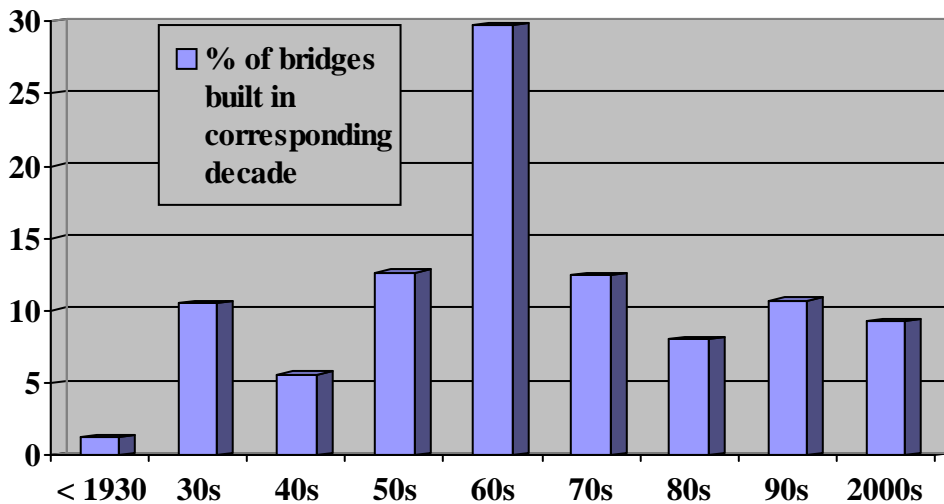


Figure 3

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2008

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 2004 through 2008 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2004	\$ 8.7	\$ 9.2
2005	\$ 7.4	\$11.0
2006	\$10.6	\$11.3
2007	\$17.1	\$22.5
2008	\$13.4	\$18.1

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
AGENT BENEFIT PLANS' FUNDING PROGRESS
 JUNE 30, 2008

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded)/Funding Excess	Funded Ratio	Annual Covered Payroll	(Unfunded)/Funding Excess AAL as Percentage of Covered Payroll
PSPRS	6/30/2008	\$ 547,255	\$ 824,620	\$ (277,365)	66.4%	\$ 101,422	(273.5)%
	6/30/2007	537,999	799,950	(261,951)	67.3%	89,498	(292.7)%
	6/30/2006	569,832	735,393	(165,561)	77.5%	80,887	(204.7)%
CORP	6/30/2008	755,559	869,342	(113,783)	86.9%	376,819	(30.2)%
	6/30/2007	713,382	800,128	(86,746)	89.2%	369,337	(23.5)%
	6/30/2006	674,749	626,328	48,421	107.7%	295,772	16.4%

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as Percentage of Covered Payroll
PSPRS	6/30/2008	-	\$ 30,584	\$ (30,584)	0.0%	\$ 101,422	(30.2)%
	6/30/2007	-	31,344	(31,344)	0.0%	89,498	(35.0)%
	6/30/2006	-	29,223	(29,223)	0.0%	80,887	(36.1)%
CORP	6/30/2008	-	40,596	(40,596)	0.0%	376,819	(10.8)%
	6/30/2007	-	38,753	(38,753)	0.0%	369,337	(10.5)%
	6/30/2006	-	36,005	(36,005)	0.0%	295,772	(12.2)%

**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, 2008
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
ASSETS				
Cash	\$ 3,615	\$ -	\$ -	\$ 3,615
Cash and pooled investments with State Treasurer	992,947	16,841	-	1,009,788
Receivables, net of allowances:				
Taxes	25,148	-	-	25,148
Interest	2,455	664	4,298	7,417
Other	26,508	-	-	26,508
Due from others	18	-	-	18
Due from other Funds	63,151	1,304	-	64,455
Inventories, at cost	95	-	-	95
Restricted assets:				
Cash and pooled investments with State Treasurer	1,188	2,607	765,817	769,612
Cash held by trustee	-	13,820	32,332	46,152
Other	20	-	-	20
Total Assets	\$ 1,115,145	\$ 35,236	\$ 802,447	\$ 1,952,828

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and other current

liabilities

Accrued liabilities

Due to local governments

Due to others

Due to other Funds

Unavailable deferred revenue

Unearned deferred revenue

Total Liabilities

\$ 30,725	\$ -	\$ 6,616	\$ 37,341
56,870	-	26	56,896
30,993	-	-	30,993
58	-	-	58
13,945	-	-	13,945
999	-	-	999
853	-	-	853
134,443	-	6,642	141,085

Fund Balances:

Reserved for:

Highway construction

Other construction

Continuing appropriations

Debt service

Unreserved

Total Fund Balances

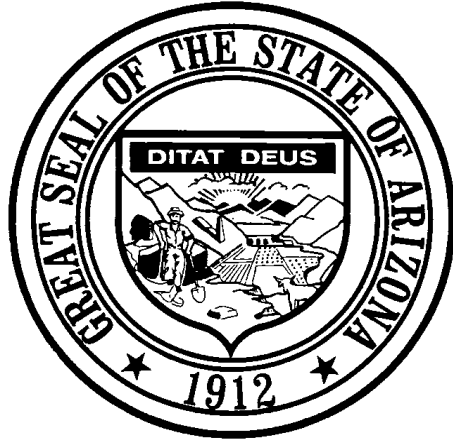
-	-	556,820	556,820
-	-	238,985	238,985
46,326	-	-	46,326
-	35,236	-	35,236
934,376	-	-	934,376
980,702	35,236	795,805	1,811,743

Total Liabilities and Fund Balances

\$ 1,115,145	\$ 35,236	\$ 802,447	\$ 1,952,828
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STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
REVENUES				
Taxes:				
Sales	\$ 508,602	\$ 65,815	\$ -	\$ 574,417
Income	107	-	-	107
Tobacco	330,109	-	-	330,109
Motor vehicle and fuel	106	-	-	106
Other	106,166	-	-	106,166
Intergovernmental	55,159	-	-	55,159
Licenses, fees, and permits	205,965	-	-	205,965
Earnings on investments	63,977	4,330	17,670	85,977
Sales and charges for services	30,874	-	-	30,874
Fines, forfeitures, and penalties	133,504	-	-	133,504
Gaming	87,309	-	-	87,309
Other	82,628	-	-	82,628
Total Revenues	<u>1,604,506</u>	<u>70,145</u>	<u>17,670</u>	<u>1,692,321</u>
EXPENDITURES				
Current:				
General government	131,552	-	-	131,552
Health and welfare	309,083	-	-	309,083
Inspection and regulation	123,709	-	-	123,709
Education	588,235	-	-	588,235
Protection and safety	103,053	-	-	103,053
Transportation	-	-	59,312	59,312
Natural resources	124,946	-	-	124,946
Debt service:				
Principal	4,737	211,555	-	216,292
Interest and other fiscal charges	547	159,472	6,223	166,242
Capital outlay	53,850	-	266,485	320,335
Total Expenditures	<u>1,439,712</u>	<u>371,027</u>	<u>332,020</u>	<u>2,142,759</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>164,794</u>	<u>(300,882)</u>	<u>(314,350)</u>	<u>(450,438)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	183,062	293,162	-	476,224
Transfers out	(232,414)	(2,267)	(7,657)	(242,338)
Capital lease and installment purchase contracts	20,410	-	-	20,410
Bonds issued	-	-	563,950	563,950
Refunding bonds issued	-	82,880	-	82,880
Payment to refunded bond escrow agent	-	(86,547)	-	(86,547)
Grant anticipation notes issued	-	-	68,000	68,000
Certificates of participation issued	-	8,771	230,219	238,990
Premium on debt issued	-	5,698	43,274	48,972
Total Other Financing Sources (Uses)	<u>(28,942)</u>	<u>301,697</u>	<u>897,786</u>	<u>1,170,541</u>
Net Change in Fund Balances	<u>135,852</u>	<u>815</u>	<u>583,436</u>	<u>720,103</u>
Fund Balances - Beginning, as restated	<u>844,850</u>	<u>34,421</u>	<u>212,369</u>	<u>1,091,640</u>
Fund Balances - Ending	<u>\$ 980,702</u>	<u>\$ 35,236</u>	<u>\$ 795,805</u>	<u>\$ 1,811,743</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, 2008
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
ASSETS						
Cash	\$ 3,526	\$ 14	\$ -	\$ -	\$ -	\$ 22
Cash and pooled investments with State Treasurer	123,440	78,204	36,432	253,416	51,015	79,904
Receivables, net of allowances:						
Taxes	4,849	-	1,163	19,136	-	-
Interest	279	237	35	767	87	100
Other	24	2	8,412	-	1	3,063
Due from others	18	-	-	-	-	-
Due from other Funds	4,326	7,832	2,074	764	1,447	75
Inventories, at cost	95	-	-	-	-	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	1,188	-	-	-
Other	-	-	19	-	-	-
Total Assets	\$ 136,557	\$ 86,289	\$ 49,323	\$ 274,083	\$ 52,550	\$ 83,164

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable and other current liabilities	\$ 8,847	\$ 5,225	\$ 1,758	\$ 4,198	\$ 2,456	\$ 2,410
Accrued liabilities	607	35,373	13,481	485	1,102	3,273
Due to local governments	-	-	-	-	-	-
Due to others	22	-	-	-	-	33
Due to other Funds	192	-	719	11,766	13	920
Unavailable deferred revenue	-	-	999	-	-	-
Unearned deferred revenue	39	-	809	-	-	-
Total Liabilities	9,707	40,598	17,766	16,449	3,571	6,636
Fund Balances:						
Reserved for:						
Continuing appropriations	5,582	1,334	567	-	62	9,290
Unreserved	121,268	44,357	30,990	257,634	48,917	67,238
Total Fund Balances	126,850	45,691	31,557	257,634	48,979	76,528
Total Liabilities and Fund Balances	\$ 136,557	\$ 86,289	\$ 49,323	\$ 274,083	\$ 52,550	\$ 83,164

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 51	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 3,615
39,994	69,836	51,484	125,619	54,556	29,047	992,947
-	-	-	-	-	-	25,148
153	245	335	34	183	-	2,455
2,026	-	21	12,959	-	-	26,508
-	-	-	-	-	-	18
233	323	34,330	11,747	-	-	63,151
-	-	-	-	-	-	95
-	-	-	-	-	-	1,188
-	-	1	-	-	-	20
<u>\$ 42,457</u>	<u>\$ 70,406</u>	<u>\$ 86,171</u>	<u>\$ 150,359</u>	<u>\$ 54,739</u>	<u>\$ 29,047</u>	<u>\$ 1,115,145</u>

\$ 3,082	\$ 2,393	\$ 292	\$ 12	\$ 29	\$ 23	\$ 30,725
1,771	190	263	190	107	28	56,870
-	-	-	30,993	-	-	30,993
3	-	-	-	-	-	58
326	5	2	-	2	-	13,945
-	-	-	-	-	-	999
-	-	5	-	-	-	853
<u>5,182</u>	<u>2,588</u>	<u>562</u>	<u>31,195</u>	<u>138</u>	<u>51</u>	<u>134,443</u>

6,000	2,435	-	21,056	-	-	46,326
<u>31,275</u>	<u>65,383</u>	<u>85,609</u>	<u>98,108</u>	<u>54,601</u>	<u>28,996</u>	<u>934,376</u>
<u>37,275</u>	<u>67,818</u>	<u>85,609</u>	<u>119,164</u>	<u>54,601</u>	<u>28,996</u>	<u>980,702</u>
<u>\$ 42,457</u>	<u>\$ 70,406</u>	<u>\$ 86,171</u>	<u>\$ 150,359</u>	<u>\$ 54,739</u>	<u>\$ 29,047</u>	<u>\$ 1,115,145</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, 2008

(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
REVENUES						
Taxes:						
Sales	\$ 17,029	\$ -	\$ 6,540	\$ -	\$ -	\$ -
Income	-	-	-	-	-	-
Tobacco	6,071	-	10,965	313,073	-	-
Motor vehicle and fuel	-	-	-	-	-	-
Other	54,646	2,920	-	588	-	48,012
Intergovernmental	7,141	416	18,876	-	1,662	836
Licenses, fees, and permits	15,192	51,947	9,805	-	7,311	74,004
Earnings on investments	4,343	3,969	697	7,094	1,330	1,390
Sales and charges for services	8,667	91	617	-	16,904	1,180
Fines, forfeitures, and penalties	67,281	1,381	10,944	11	38,240	2,266
Gaming	-	-	23,434	-	-	9,812
Other	12,204	453	1,940	42	580	6,114
Total Revenues	<u>192,574</u>	<u>61,177</u>	<u>83,818</u>	<u>320,808</u>	<u>66,027</u>	<u>143,614</u>
EXPENDITURES						
Current:						
General government	28,024	1,178	3,623	627	59,660	1,805
Health and welfare	-	77,351	83,182	148,550	-	-
Inspection and regulation	-	1,415	-	102	27	122,165
Education	-	-	-	7,329	-	-
Protection and safety	103,053	-	-	-	-	-
Natural resources	17,987	1,025	-	-	-	-
Debt service:						
Principal	4,615	-	-	-	-	98
Interest and other fiscal charges	-	-	-	-	8	-
Capital outlay	10,342	165	398	1,381	68	1,702
Total Expenditures	<u>164,021</u>	<u>81,134</u>	<u>87,203</u>	<u>157,989</u>	<u>59,763</u>	<u>125,770</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>28,553</u>	<u>(19,957)</u>	<u>(3,385)</u>	<u>162,819</u>	<u>6,264</u>	<u>17,844</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	12,649	50,808	5,496	-	3,547	553
Transfers out	(51,754)	(39,696)	(18,408)	(1,222)	(11,579)	(54,054)
Capital lease and installment purchase contracts	-	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>(39,105)</u>	<u>11,112</u>	<u>(12,912)</u>	<u>(1,222)</u>	<u>(8,032)</u>	<u>(53,501)</u>
Net Change in Fund Balances	(10,552)	(8,845)	(16,297)	161,597	(1,768)	(35,657)
Fund Balances - Beginning, as restated	137,402	54,536	47,854	96,037	50,747	112,185
Fund Balances - Ending	<u>\$ 126,850</u>	<u>\$ 45,691</u>	<u>\$ 31,557</u>	<u>\$ 257,634</u>	<u>\$ 48,979</u>	<u>\$ 76,528</u>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ 485,033	\$ -	\$ -	\$ 508,602
-	-	-	107	-	-	107
-	-	-	-	-	-	330,109
-	-	-	106	-	-	106
-	-	-	-	-	-	106,166
21,621	-	2,338	2,269	-	-	55,159
34,166	2,977	4,263	101	6,199	-	205,965
2,384	3,290	3,615	33,359	2,506	-	63,977
1,636	-	403	1,336	40	-	30,874
3,365	-	-	-	-	10,016	133,504
6,695	-	-	47,368	-	-	87,309
7,427	270	35,911	308	10,451	6,928	82,628
<u>77,294</u>	<u>6,537</u>	<u>46,530</u>	<u>569,987</u>	<u>19,196</u>	<u>16,944</u>	<u>1,604,506</u>
-	-	32,328	-	-	4,307	131,552
-	-	-	-	-	-	309,083
-	-	-	-	-	-	123,709
-	-	-	580,906	-	-	588,235
-	-	-	-	-	-	103,053
66,265	20,464	282	-	18,923	-	124,946
24	-	-	-	-	-	4,737
503	-	-	36	-	-	547
38,386	1,219	-	189	-	-	53,850
<u>105,178</u>	<u>21,683</u>	<u>32,610</u>	<u>581,131</u>	<u>18,923</u>	<u>4,307</u>	<u>1,439,712</u>
<u>(27,884)</u>	<u>(15,146)</u>	<u>13,920</u>	<u>(11,144)</u>	<u>273</u>	<u>12,637</u>	<u>164,794</u>
10,764	20,405	3,762	74,478	600	-	183,062
(10,435)	(6,454)	(19,510)	(369)	(27)	(18,906)	(232,414)
20,410	-	-	-	-	-	20,410
<u>20,739</u>	<u>13,951</u>	<u>(15,748)</u>	<u>74,109</u>	<u>573</u>	<u>(18,906)</u>	<u>(28,942)</u>
<u>(7,145)</u>	<u>(1,195)</u>	<u>(1,828)</u>	<u>62,965</u>	<u>846</u>	<u>(6,269)</u>	<u>135,852</u>
<u>44,420</u>	<u>69,013</u>	<u>87,437</u>	<u>56,199</u>	<u>53,755</u>	<u>35,265</u>	<u>844,850</u>
<u>\$ 37,275</u>	<u>\$ 67,818</u>	<u>\$ 85,609</u>	<u>\$ 119,164</u>	<u>\$ 54,601</u>	<u>\$ 28,996</u>	<u>\$ 980,702</u>

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

NON-MAJOR SPECIAL REVENUE FUNDS	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Board of Accountancy		
Administrative Adjustments	\$ 5,128	\$ 5,128
Cash Transfer to General Fund	2,056,000	2,056,000
Operating Lump Sum Appropriation	2,346,600	1,488,430
Other Funds Cash Transfer to General Fund	10,300	10,300
Department of Administration		
Administrative Adjustments	212	212
Administrative Adjustments	9,266	9,266
Archives and History Building FY04 - 05	227,256	134,105
Department of Corrections Fort Grant Landfill Closure FY01 - 02	43,123	0
Government Building Defibrillators FY01 - 02	16	0
Government Building Defibrillators FY02 - 03	293	0
New Prison Complex FY99 - 00	260,698	0
Operating Lump Sum Appropriation	735,000	693,676
Operating Lump Sum Appropriation	575,100	573,867
Other Funds Cash Transfer to General Fund	6,700	6,700
Other Funds Cash Transfer to General Fund	6,100	6,100
Other Funds Cash Transfer to General Fund	6,000	6,000
Pioneers' Home Plumbing Renovations FY01 - 02	2,590	0
Pioneers' Home Plumbing Renovations FY03 - 04	262,957	0
Yuma Prison Water Treatment Plant Upgrade FY06 - 07	2,189,000	175,243
Radiation Regulatory Agency		
MRTB Assistant FY02 - 03	11,375	0
Operating Lump Sum Appropriation	288,800	284,963
Other Funds Cash Transfer to General Fund	3,000	3,000
Attorney General		
Administrative Adjustments	641	641
Administrative Adjustments	13	13
Administrative Adjustments	3,936	3,936
Administrative Adjustments	6	6
Cash Transfer to General Fund	1,000,000	1,000,000
Cash Transfer to General Fund	500,000	500,000
Operating Lump Sum Appropriation	2,214,900	2,134,798
Operating Lump Sum Appropriation	239,900	142,607
Operating Lump Sum Appropriation	4,870,400	3,640,007
Operating Lump Sum Appropriation	6,681,100	6,669,829
Other Funds Cash Transfer to General Fund	3,300	3,300
Other Funds Cash Transfer to General Fund	4,700	4,700
Other Funds Cash Transfer to General Fund	47,000	47,000
Other Funds Cash Transfer to General Fund	400	400
Other Funds Cash Transfer to General Fund	5,600	5,600
Other Funds Cash Transfer to General Fund	94,800	94,800
Other Funds Cash Transfer to General Fund	116,200	116,200
Risk Management ISA	9,843,500	9,138,483
Victims Rights Implementation Fund	3,277,400	3,242,851
Victims Rights/Non Reverting-HB2427 FY 00- 01	93,567	31,837
Department of Agriculture		
Administrative Adjustments	23	23
Administrative Adjustments	77	77
Administrative Adjustments	460	460
Administrative Adjustments	537	537
Administrative Adjustments	72	72
Administrative Adjustments	4,699	4,699

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Administrative Adjustments	274	274
Administrative Adjustments	56	56
Cash Transfer to General Fund	15,000	15,000
Cash Transfer to General Fund	25,000	25,000
Cash Transfer to General Fund	300,000	300,000
Cash Transfer to General Fund	80,000	80,000
Cash Transfer to General Fund	41,400	41,400
Cash Transfer to General Fund	20,000	20,000
Cash Transfer to General Fund	40,000	40,000
Cash Transfer to General Fund	30,000	30,000
Operating Lump Sum Appropriation	106,700	105,039
Operating Lump Sum Appropriation	300,300	298,660
Operating Lump Sum Appropriation	900,900	670,794
Operating Lump Sum Appropriation	386,200	368,218
Operating Lump Sum Appropriation	40,000	0
Operating Lump Sum Appropriation	54,300	54,300
Operating Lump Sum Appropriation	79,400	47,446
Operating Lump Sum Appropriation	306,100	304,997
Operating Lump Sum Appropriation	1,086,400	873,448
Operating Lump Sum Appropriation	9,200	6,844
Operating Lump Sum Appropriation	194,700	110,587
Other Funds Cash Transfer to General Fund	2,300	2,300
Other Funds Cash Transfer to General Fund	7,500	7,500
Other Funds Cash Transfer to General Fund	2,900	2,900
Other Funds Cash Transfer to General Fund	300	300
Other Funds Cash Transfer to General Fund	2,500	2,500
Other Funds Cash Transfer to General Fund	25,400	25,400
Other Funds Cash Transfer to General Fund	9,400	9,400
Other Funds Cash Transfer to General Fund	1,400	1,400
Other Funds Cash Transfer to General Fund	6,700	6,700
Wine Promotion FY93 - 94	54,858	0
Acupuncture Board of Examiners		
Cash Transfer to General Fund	100,000	100,000
Operating Lump Sum Appropriation	129,200	120,058
Other Funds Cash Transfer to General Fund	1,300	1,300
State Board of Appraisal		
Cash Transfer to General Fund	537,900	537,900
Operating Lump Sum Appropriation	621,800	607,498
Operating Lump Sum Appropriation FY06 - 07	33,009	(880)
Other Funds Cash Transfer to General Fund	4,500	4,500
Automobile Theft Authority		
Automobile Theft Authority Grants	4,823,700	4,786,175
Operating Lump Sum Appropriation	674,300	647,144
Other Funds Cash Transfer to General Fund	6,300	6,300
Reimbursable Programs	50,000	0
Board of Barbers		
Administrative Adjustments	5,270	5,270
Cash Transfer to General Fund	400,000	400,000
Operating Lump Sum Appropriation	344,800	272,136
Other Funds Cash Transfer to General Fund	2,800	2,800
Department of Financial Institutions		
Cash Transfer to General Fund	1,000,000	1,000,000
Other Funds Cash Transfer to General Fund	8,400	8,400

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Board of Behavioral Health Examiners		
Operating Lump Sum Appropriation	1,382,100	1,342,554
Other Funds Cash Transfer to General Fund	12,300	12,300
State Board of Nursing		
Cash Transfer to General Fund	75,000	75,000
CNA Investigations	328,200	328,200
Operating Lump Sum Appropriation	3,785,600	3,542,974
Other Funds Cash Transfer to General Fund	30,500	30,500
Board of Cosmetology		
Cash Transfer to General Fund	3,091,800	3,091,800
Operating Lump Sum Appropriation	1,839,300	1,827,307
Other Funds Cash Transfer to General Fund	16,300	16,300
Corporation Commission		
Administrative Adjustments	4,499	4,499
Administrative Adjustments	6,783	6,783
Administrative Adjustments	10,174	10,174
Annual Reversion per ARS 10-122	1,385,468	1,385,468
Annual Reversion per ARS 44-3298	1,054,739	1,054,739
Cash Transfer to General Fund	1,680,300	1,680,300
Corporation Filings, Same Day Service	400,400	0
Investigation and Prosecution of Security Fraud	165,599	0
Operating Lump Sum Appropriation	13,558,800	13,444,782
Operating Lump Sum Appropriation	55,400	47,410
Operating Lump Sum Appropriation	3,945,200	3,652,607
Operating Lump Sum Appropriation	3,968,200	3,783,355
Operating Lump Sum Appropriation	928,400	924,811
Other Funds Cash Transfer to General Fund	151,400	151,400
Other Funds Cash Transfer to General Fund	42,900	42,900
Other Funds Cash Transfer to General Fund	25,600	25,600
Other Funds Cash Transfer to General Fund	10,900	10,900
Relief Bill Cash Transfer FY08	601	601
Util Audits - 2002-2003 - Non-Lapsing FY02 - 03	372,965	372,965
Util Audits - 2001-2002 - Non-Lapsing FY01 - 02	188,683	188,683
Utilities, Audits, Studies, Invest, Hear	380,000	0
Utilities, Audits, Studies, Invest, Hear FY03 - 04	361,349	17,878
Utilities, Audits, Studies, Invest, Hear FY04 - 05	380,000	0
Utilities, Audits, Studies, Invest, Hear FY05 - 06	380,000	0
Utilities, Audits, Studies, Invest, Hear FY06 - 07	380,000	0
State Board of Chiropractic Examiners		
Cash Transfer to General Fund	100,000	100,000
Operating Lump Sum Appropriation	518,700	512,891
Other Funds Cash Transfer to General Fund	4,800	4,800
Department of Corrections		
Administrative Adjustments	16,262	16,262
Administrative Adjustments	34,208	34,208
Administrative Adjustments	30,121	30,121
Administrative Adjustments	1,004,259	1,004,259
Cash Transfer to General Fund	1,000,000	1,000,000
Cash Transfer to General Fund	1,300,000	1,300,000
Cash Transfer to General Fund	800,000	800,000
Correctional Officer PS And Employee Related Expenses	380,400	380,400
County Jail Beds	2,400	2,400
Drug Treatment Pilot Program FY03 - 04	23,390	23,031
Health Care All Other Operating Expenditures	10,432,500	10,429,728

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Non-Health Care All Other Operating Exp	3,117,300	3,105,655
Non-Health Care All Other Operating Expenditures	599,300	555,419
Non-Health Care All Other Operating Expenditures	600,000	387,340
Non-Health Care All Other Operating Expenditures	869,200	790,143
Non-Health Care All Other Operating Expenditures	570,000	562,037
Other Funds Cash Transfer to General Fund	1,200	1,200
Private Prison Per Diem	28,674,300	27,418,707
Private Prison Per Diem	1,017,200	940,329
Private Prison Per Diem	1,000,000	739,000
Provisional Beds	3,057,200	3,057,200
Provisional Beds	1,056,200	1,056,200
State Charitable, Penal and Reformatory Land Earnings	900,000	598,164
Department of Economic Security		
ADM Attorney General Legal Services	108,713	27,545
ADM Operating Lump Sum Appropriation	610,200	16
ADM Operating Lump Sum Appropriation	131,800	12,980
ADM Operating Lump Sum Appropriation	89,000	63,857
ADM Public Assistance Collections	275,887	227,654
Administrative Adjustments	1,500,000	1,500,000
Administrative Adjustments	4	4
Administrative Adjustments	702	702
Administrative Adjustments	9,318	9,318
Administrative Adjustments	3,370	3,370
Administrative Adjustments	220,411	220,411
Cash Transfer to General Fund	2,000,000	2,000,000
Cash Transfer to General Fund	400,000	400,000
DACS Community and Emergency Services	500,000	500,000
DACS Domestic Violence Prevention	1,700,000	1,699,977
DCYF Child Abuse Prevention	826,900	39,357
DCYF Child Abuse Prevention FY05-06	0	(1,100)
DCYF Children Support Services	750,000	0
DCYF Operating Lump Sum Appropriation	209,600	83,120
DDD Autism Training and Oversight	200,000	0
DDD Autism Training and Oversight	129,594	118,982
DERS Independent Living Rehabilitation Services	1,707,700	1,646,768
DERS Jobs	1,500,000	1,464,939
DERS Operating Lump Sum Appropriation	85,000	1,464
DERS Operating Lump Sum Appropriation	564,200	483,332
DERS Vocational Rehabilitation Services	204,700	143,345
Other Funds Cash Transfer to General Fund	10,800	10,800
Other Funds Cash Transfer to General Fund	600	600
Other Funds Cash Transfer to General Fund	5,300	5,300
Commission for the Deaf and Hard of Hearing		
Administrative Adjustments	6,623	6,623
Cash Transfer to General Fund	5,553,600	5,553,600
Interpreters for Certification and Licensure FY04 - 05	432,332	13,420
Operating Lump Sum Appropriation	5,440,800	4,505,345
Other Funds Cash Transfer to General Fund	14,500	14,500
Department of Juvenile Corrections		
Cash Transfer to General Fund	300,000	300,000
Operating Lump Sum Appropriation	686,500	686,500
Operating Lump Sum Appropriation	1,098,600	1,098,600
Other Funds Cash Transfer to General Fund	3,300	3,300

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
State Board of Dispensing Opticians		
Operating Lump Sum Appropriation	126,300	121,356
Other Funds Cash Transfer to General Fund	1,100	1,100
State Board of Dental Examiners		
Cash Transfer to General Fund	4,200,000	4,200,000
Operating Lump Sum Appropriation	1,136,800	1,101,867
Other Funds Cash Transfer to General Fund	9,000	9,000
Department of Education		
Achievement Testing - Proposition 301	2,340,300	576,134
Achievement Testing - Proposition 301 FY05 - 06	424,692	424,692
Achievement Testing - Proposition 301 FY06 - 07	2,340,300	2,340,300
Additional School Days - Proposition 301	86,280,500	71,900,417
Additional School Days - Proposition 301 FY06 - 07	7,190,042	7,190,042
Basic State Aid Entitlement	45,220,700	45,220,700
Character Education - Proposition 301	200,000	0
Character Education - Proposition 301 FY04 - 05	129,000	129,000
Character Education - Proposition 301 FY05 - 06	200,000	159,864
Character Education - Proposition 301 FY06 - 07	200,000	0
Failing School Tutoring Fund FY04 - 05	888,595	888,595
Failing School Tutoring Fund - Proposition 301	1,500,000	1,108,049
Failing School Tutoring Fund FY03 - 04	90	90
Failing School Tutoring Fund FY05 - 06	776,430	776,430
Failing School Tutoring Fund FY06 - 07	556,294	556,294
Other Funds Cash Transfer to General Fund	6,800	6,800
School Accountability - Proposition 301	4,659,700	1,058,987
School Accountability - Proposition 301 FY02 - 03	12,527	12,527
School Accountability - Proposition 301 FY03 - 04	26,446	26,446
School Accountability - Proposition 301 FY04 - 05	39,611	39,611
School Accountability - Proposition 301 FY05 - 06	107,432	107,221
School Accountability - Proposition 301 FY06 - 07	3,517,199	3,040,400
School Acct - School Safety - Proposition 301	7,800,000	7,797,624
School Acct - School Safety - Proposition 301 FY03 - 04	4	4
School Acct - School Safety - Proposition 301 FY04 - 05	6,658	6,658
School Acct - School Safety - Proposition 301 FY05 - 06	4,210	4,210
School Acct - School Safety - Proposition 301 FY06 - 07	226,719	226,719
Department of Commerce		
Administrative Adjustments	3,143	3,143
Administrative Adjustments	13,947	13,947
Advertising And Promotion	659,200	450,302
Arizona Sonora Trade Office	25,000	25,000
CEDC Commission	286,100	275,845
Economic Development Matching Funds	104,000	101,692
International Trade Offices	714,300	692,694
Lottery 1989 FY91- 92	1	0
Main Street	130,000	122,291
Minority & Women Owned Business	128,400	94,665
National Law Center/Free Trade	200,000	200,000
Oil Overcharge Administration	184,800	6
Operating Lump Sum Appropriation	186,900	172,806
Other Funds Cash Transfer to General Fund	2,500	2,500
Other Funds Cash Transfer to General Fund	4,300	4,300
Other Funds Cash Transfer to General Fund	1,100	1,100
Other Funds Cash Transfer to General Fund	2,000	2,000

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Redi Matching Grants	45,000	44,928
Small Business Advocate	125,800	110,686
Department of Environmental Quality		
Administrative Adjustments	5,035	5,035
Administrative Adjustments	181,985	181,985
Administrative Adjustments	1,471	1,471
Administrative Adjustments	5,170	5,170
Administrative Adjustments	56,505	56,505
Air Quality Management and Analysis	5,065,100	4,792,795
Air Quality Management and Analysis	5,991,500	5,705,541
Air Quality Program - Continuing FY01 - 02	186,035	0
Air Quality Program - Continuing FY02 - 03	182,451	0
Cash Transfer to General Fund	3,000,000	3,000,000
Cash Transfer to General Fund	5,088,700	5,088,700
Cash Transfer to General Fund	28,419,700	28,419,700
Cash Transfer to General Fund	1,097,100	1,097,100
Emissions Cap and Trading Program FY01 - 02	70,576	0
Emissions Cap and Trading Program FY02 - 03	266,582	0
Emissions Control Contractor Payment	33,239,600	30,707,764
Emissions Control Program - Administration	4,231,300	2,662,488
Hazardous Waste Reserve FY94 - 95	64,000	0
Hazardous Waste Reserve FY95 - 96	29,273	0
Other Funds Cash Transfer to General Fund	19,700	19,700
Other Funds Cash Transfer to General Fund	53,100	53,100
Other Funds Cash Transfer to General Fund	20,400	20,400
Other Funds Cash Transfer to General Fund	63,100	63,100
Other Funds Cash Transfer to General Fund	5,300	5,300
Other Funds Cash Transfer to General Fund	47,000	47,000
Other Funds Cash Transfer to General Fund	2,700	2,700
Other Funds Cash Transfer to General Fund	8,000	8,000
Other Funds Cash Transfer to General Fund	22,500	22,500
Political Subdivisions Assistance FY01 - 02	18,500	0
Roadside Diesel Emissions Testing Program FY01 - 02	200,000	0
Roadside Diesel Emissions Testing Program FY02 - 03	200,000	0
School Bus and Air Quality Grants FY05 - 06	3,170,956	1,449,224
Transfers to Counties Program	165,000	165,000
Underground Storage Tank Policy Comm FY00 - 01	1	0
Underground Storage Tank Policy Comm FY99 - 00	18,857	0
Underground Storage Tank Program	22,000	3,273
Underground Storage Tank Technical Appeals FY00 - 01	7,500	0
Visibility Index Development FY01 - 02	80,589	0
Visibility Index Development FY02 - 03	10,099	0
Waste Control and Management	795,000	189,128
Waste Control and Management	2,325,800	1,938,134
Waste Control and Management	1,278,300	882,299
Waste Control and Management	500	0

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Waste Control and Management	137,300	10,384
Waste Tire Program	224,900	47,674
Water Quality Program	5,906,500	3,706,690
State Board of Funeral Directors & Embalmers		
Cash Transfer to General Fund	100,000	100,000
Operating Lump Sum Appropriation	349,900	349,856
Other Funds Cash Transfer to General Fund	4,000	4,000
Game and Fish Department		
Administrative Adjustments	12,213	12,213
Administrative Adjustments	864	864
Administrative Adjustments	5,000	5,000
Becker Lake Facilities Improvements	120,000	45,116
Becker Lake Wildlife Area Bridge	52,000	0
Bellefont Shooting Range Improvement FY04 - 05	800,000	0
Black Canyon Dam Modifications FY05 - 06	499,000	0
Black Canyon Dam Modifications FY06 - 07	298,000	3,474
Boat Registration Kiosks	240,000	0
Boat Shade Canopies	195,000	117,427
Building Renewal	474,000	338,578
Building Renewal FY02 - 03	1	0
Building Renewal FY05 - 06	24,194	24,194
Building Renewal FY06 - 07	99,698	99,527
Cash Transfer to General Fund	2,827,600	2,827,600
Cash Transfer to General Fund	4,732,700	4,732,700
Cash Transfer to General Fund	395,000	395,000
Cluff Ranch Access Improvements FY06 - 07	50,000	43,593
DPS Microwave Communications System	207,000	207,000
Facility Improvements FY01 - 02	32,467	2,175
Facility Improvements FY02 - 03	5	0
Flagstaff Shooting Range Development FY00 - 01	53,549	20,200
Flagstaff Shooting Range Planning FY01 - 02	459,179	0
Flagstaff Shooting Range Planning FY02 - 03	499,900	0
Flood Warning System	321,860	223,395
Headquarters Construction	80,000	80,000
Headquarters Expansion and Renovation FY02 - 03	48,692	47,043
Headquarters Paving FY04 - 05	1	0
Headquarters Security System FY03 - 04	4,188	0
House Rock Driveway Surfacing FY06 - 07	25,000	19,999
Lake Havasu Shooting Range Development FY03 - 04	297,502	0
Lower Colorado Multi-Species Conservation	350,000	350,000
Mesa Office Security System FY04 - 05	4,763	739
Migratory Waterfowl Development FY00 - 01	5,229	5,229
Migratory Waterfowl Development FY01 - 02	73,000	3,500
Migratory Waterfowl Development FY02 - 03	85,931	7,812
Migratory Waterfowl Development FY03 - 04	84,986	19,771
Migratory Waterfowl Development FY99 - 00	65,976	2,997
Migratory Waterfowl Habitat FY 93 - 94	1,302	0
Migratory Waterfowl Habitat FY05 - 06	100,000	6,239
Migratory Waterfowl Habitat FY06 - 07	100,000	0
Operating Lump Sum Appropriation	27,888,000	25,028,681
Operating Lump Sum Appropriation	4,234,800	3,753,521
Operating Lump Sum Appropriation	329,800	234,591
Operating Lump Sum Appropriation	43,400	21,189
Operating Lump Sum Appropriation	16,000	0

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Other Funds Cash Transfer to General Fund	22,300	22,300
Other Funds Cash Transfer to General Fund	1,900	1,900
Other Funds Cash Transfer to General Fund	3,300	3,300
Other Funds Cash Transfer to General Fund	6,200	6,200
Performance Based Incentives Program FY00 - 01	13	0
Performance Based Incentives Program FY02 - 03	322	0
Performance Incentive Pay Program	300,000	300,000
Performance Incentive Pay Program	46,800	46,800
Performance Incentive Pay Program FY03 - 04	1,076	0
Performance Incentive Pay Program FY06 - 07	300,000	300,000
Performance Incentive Pay Program FY06 - 07	46,800	46,800
Pinetop Warehouse and Paving FY03 - 04	11	0
Pittman - Robertson/Dingell - Johnson Act	2,808,000	2,808,000
Regional (Flagstaff) Office Remodel/Expansion	1,050,000	0
Robbins Butte Levee	228,000	80,066
Seven Mile Shooting Range	48,000	48,000
Shade Canopies FY04 - 05	44,425	44,424
Shooting Range Access Improvements	199,193	444
Shooting Range Development	100,000	74,692
Shooting Range Development FY02 - 03	1,247	1,247
Shooting Range Development/Grants Program FY05 - 06	6,004	6,004
Shooting Range Development/Grants Program FY06 - 07	91,538	91,537
Shooting Range Improvements	150,000	131,582
Sierra Vista Shooting Range Improvement FY04 - 05	20,285	20,285
Silver Creek Hatchery Improvements FY04 - 05	73,904	73,429
Statewide Preventative Maintenance	30,000	29,890
Statewide Preventative Maintenance FY04 - 05	7	0
Statewide Preventative Maintenance FY05 - 06	1	0
Tonto Creek Hatchery Improvements FY04 - 05	133,134	0
Tri-State Shooting Range Development FY04 - 05	300,000	0
W.C. Performance Based Incentives Program FY01 - 02	2	0
Watercraft Grant Program	250,000	250,000
Watercraft Safety Education Program	1,275,000	1,229,488
Yuma Office Fence FY06 - 07	10,000	0
Yuma Office Security System FY06 - 07	30,000	0
Department of Gaming		
Casino Operation Certification	2,259,700	1,887,173
Joint Monitoring System	1,188,100	206,757
Operating Lump Sum Appropriation	9,388,600	8,211,409
Problem Gambling	300,000	300,000
Problem Gambling	2,424,600	1,859,940
Arizona Geological Survey		
Other Funds Cash Transfer to General Fund	6,800	6,800
Governor's Office		
Cash Transfer to General Fund	1,710,000	1,710,000
Arizona Health Care Cost Containment System		
Administrative Adjustments	571,241	571,241
Capitation	45,688,600	41,261,930
Cash Transfer to General Fund	1,506,200	1,506,200
Children's Health Insurance Program - Parents	32,498,600	31,285,862
Children's Health Insurance Program- Services	92,510,800	92,510,800
Kidscare Administration	9,828,600	9,519,467
Proposition 204 - Capitation	19,465,300	19,465,300
Proposition 204 - Capitation	15,286,400	14,579,535

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STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 NON-MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2008
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Proposition 204 - Medicare	9,813,900	9,625,700
Relief Bill Cash Transfer FY08	1,287	0
Arizona Department of Housing		
Administrative Adjustments	22,564	22,564
Cash Transfer to General Fund	2,775,900	2,775,900
Cash Transfer to General Fund	10,244,000	10,244,000
Operating Lump Sum Appropriation	886,500	886,500
Other Funds Cash Transfer to General Fund	42,300	42,300
Other Funds Cash Transfer to General Fund	10,800	10,800
Homeopathic Medical Examiners		
Administrative Adjustments	74	74
Operating Lump Sum Appropriation	96,600	95,059
Other Funds Cash Transfer to General Fund	900	900
Department of Health Services		
Administrative Adjustments	171,375	171,375
Administrative Adjustments	559,447	559,447
Administrative Adjustments	2,000	2,000
Administrative Adjustments	27,852	27,852
Administrative Adjustments	186	186
Administrative Adjustments	310,525	310,525
Administrative Adjustments	212	212
Alzheimer's Disease Research	1,000,000	1,000,000
Assurance and Licensure	38,000	0
Attorney General Legal Services	50,000	50,000
Autism Services - Applied Behavioral Analysis FY06 - 07	1,800,000	1,800,000
Autism Services - Intensive Early Intervention FY06 - 07	264,000	264,000
Cash Transfer to General Fund	1,500,000	1,500,000
Cash Transfer to General Fund	138,700	138,700
Cash Transfer to General Fund	6,200,000	6,200,000
Child Fatality Review Team	99,100	99,100
Community Health Centers	4,500,000	4,446,851
EMS Operations	3,232,400	3,114,710
Folic Acid	400,000	290,551
High Risk Prenatal Services	450,000	361,739
Laboratory Services	970,600	752,617
Loan Repayment	150,000	50,250
Newborn Screening Fund - Indirect Costs	478,600	0
Newborn Screening Program	6,325,700	5,238,158
Nursing Care Institution Incentive Grants	400,000	360,000
Operating Lump Sum Appropriation	203,900	203,900
Operating Lump Sum Appropriation	837,300	763,523
Operating Lump Sum Appropriation	350,000	276,217
Other Funds Cash Transfer to General Fund	31,500	31,500
Other Funds Cash Transfer to General Fund	25,300	25,300
Other Funds Cash Transfer to General Fund	300	300
Other Funds Cash Transfer to General Fund	5,800	5,800
Other Funds Cash Transfer to General Fund	900	900
Primary Trauma Centers - Southern Arizona FY06 - 07	176,983	176,983
Seriously Mentally Ill Non-Title XIX	30,424,800	23,688,079
Statewide Emergency Medical Trauma System FY04 - 05	13,500	13,500
Substance Abuse Non-Title XIX	2,500,000	2,500,000
Trauma Advisory Board	405,400	391,546

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Industrial Commission of Arizona		
Administrative Adjustments	55,739	55,739
Cash Transfer to General Fund	3,530,900	3,530,900
Operating Lump Sum Appropriation	19,869,500	18,439,997
Other Funds Cash Transfer to General Fund	163,500	163,500
Relief Bill Cash Transfer FY08	306	306
Department of Insurance		
Health Care Group Audit	200,000	102,116
Other Funds Cash Transfer to General Fund	18,900	18,900
Other Funds Cash Transfer to General Fund	900	900
Other Funds Cash Transfer to General Fund	4,000	4,000
Arizona Criminal Justice Commission		
Cash Transfer to General Fund	2,000,000	2,000,000
Cash Transfer to General Fund	1,200,000	1,200,000
Crime Victim Compensation Special AG Transfer FY00 - 01	8,202	0
Drug And Gang Prevention Resource Center	305,800	305,800
Operating Lump Sum Appropriation	939,200	896,244
Other Funds Cash Transfer to General Fund	15,800	15,800
Other Funds Cash Transfer to General Fund	500	500
State Aid to County Attorneys	1,052,500	1,052,500
State Aid to Indigent Attorneys	999,200	997,841
Victim Compensation and Assistance	4,100,000	4,011,310
Land Department		
Natural Resource Conservation Districts	260,000	260,000
Other Funds Cash Transfer to General Fund	27,500	27,500
Department of Liquor Licenses and Control		
Cash Transfer to General Fund	500,000	500,000
Other Funds Cash Transfer to General Fund	11,500	11,500
Division of Emergency Management & Military Affairs		
Operating Lump Sum-Emergency Response Fund	132,700	55,592
Medical Examiners Board		
Administrative Adjustments	111,676	111,676
Cash Transfer to General Fund	1,350,000	1,350,000
Litigation Expenses FY06 - 07	326,000	190,499
Operating Lump Sum Appropriation	5,821,700	5,502,991
Other Funds Cash Transfer to General Fund	51,800	51,800
Performance Based Incentive Program	147,663	147,499
Mines and Mineral Resources		
Other Funds Cash Transfer to General Fund	1,700	1,700
Naturopathic Physicians Board of Medical Examiners		
Cash Transfer to General Fund	1,000,000	1,000,000
Operating Lump Sum Appropriation	606,800	591,365
Other Funds Cash Transfer to General Fund	6,100	6,100
Nursing Care Examiners Board		
Administrative Adjustments	75	75
Operating Lump Sum Appropriation	377,600	315,167
Other Funds Cash Transfer to General Fund	1,200	1,200
State Board of Optometry		
Operating Lump Sum Appropriation	202,200	187,679
Other Funds Cash Transfer to General Fund	1,900	1,900
Arizona Board of Osteopathic Examiners		
Administrative Adjustments	98,460	98,460
Cash Transfer to General Fund	250,000	250,000

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	692,100	691,795
Other Funds Cash Transfer to General Fund	6,500	6,500
Board of Occupational Therapy Examiners		
Administrative Adjustments	20	20
Operating Lump Sum Appropriation	244,800	225,254
Other Funds Cash Transfer to General Fund	2,200	2,200
Commission on Drug Education		
Cash Transfer to General Fund	2,000,000	2,000,000
Commission for Postsecondary Education		
Arizona College and Career Guide	21,200	1,699
Arizona Minority Educational Policy Analysis Center	100,300	13,699
Family College Savings Program	152,600	111,245
Leveraging Educational Assistance Partnership	2,818,700	2,265,654
Operating Lump Sum Appropriation	404,000	192,886
Other Funds Cash Transfer to General Fund	2,600	2,600
Twelve Plus Partnership	130,800	102,639
Arizona Pioneers' Home		
All Other Operating Expenditures	35,800	28,385
All Other Operating Expenditures	92,000	44,955
Personal Services/Employee Related Expenditures	3,312,600	3,264,464
Personal Services/Employee Related Expenditures	1,659,000	1,625,472
Prescription Drugs	210,000	190,940
State Board of Pharmacy		
Cash Transfer to General Fund	2,500,000	2,500,000
Controlled Sub Prescrip Monitoring Program	395,795	395,795
Operating Lump Sum Appropriation	2,509,300	2,268,838
Other Funds Cash Transfer to General Fund	20,000	20,000
State Board of Podiatry Examiners		
Operating Lump Sum Appropriation	143,500	108,342
Other Funds Cash Transfer to General Fund	800	800
State Parks Board		
Administrative Adjustments	1,160	1,160
Cash Transfer to General Fund	4,100,000	4,100,000
Cash Transfer to General Fund	1,500,000	1,500,000
FY88 - 89 Pass Thru Grants	10,436	0
FY89 - 90 Pass Thru Grants	40,191	0
FY90 - 91 Pass Thru Grants	2,067,639	0
Land, Buildings and Improvements FY89 - 90	4,388	0
Land, Buildings and Improvements FY89 - 90	258,697	0
Land, Buildings and Improvements FY90 - 91	1,500	0
Land, Buildings and Improvements FY90 - 91	19,258	0
Land, Buildings and Improvements FY90 - 91	32,684	0
Off Highway Vehicle Parks Operations	692,100	688,168
Operating Lump Sum Appropriation	537,500	347,404
Operating Lump Sum Appropriation	2,323,800	2,274,266
Other Funds Cash Transfer to General Fund	3,600	3,600
Other Funds Cash Transfer to General Fund	27,000	27,000
Other Funds Cash Transfer to General Fund	18,600	18,600
Department of Public Safety		
Administrative Adjustments	13	13
Cash Transfer to General Fund	700,000	700,000
Cash Transfer to General Fund	300,000	300,000
Cash Transfer to General Fund	600,000	600,000
DNA Testing	1,980,000	805,335

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DNA Testing FY02 - 03	1,258,331	0
DNA Testing FY03 - 04	936,236	193,615
Motor Vehicle Fuel	231,300	231,300
Operating Lump Sum Appropriation	52,000,000	51,770,000
Operating Lump Sum Appropriation	21,083,100	19,454,536
Operating Lump Sum Appropriation	1,564,100	1,557,200
Operating Lump Sum Appropriation	5,881,400	5,857,795
Operating Lump Sum Appropriation	3,293,100	2,714,407
Operating Lump Sum Appropriation	3,769,100	3,752,400
Operating Lump Sum Appropriation	2,725,400	2,713,300
Operating Lump Sum Appropriation	10,000,000	9,955,800
Operating Lump Sum Appropriation	3,290,300	3,275,700
Other Funds Cash Transfer to General Fund	230,000	230,000
Other Funds Cash Transfer to General Fund	96,300	96,300
Other Funds Cash Transfer to General Fund	28,600	28,600
Other Funds Cash Transfer to General Fund	6,900	6,900
Other Funds Cash Transfer to General Fund	11,700	11,700
Other Funds Cash Transfer to General Fund	23,600	23,600
Other Funds Cash Transfer to General Fund	6,100	6,100
Other Funds Cash Transfer to General Fund	17,700	17,700
Other Funds Cash Transfer to General Fund	30,400	30,400
Other Funds Cash Transfer to General Fund	12,100	12,100
Other Funds Cash Transfer to General Fund	44,200	44,200
Other Funds Cash Transfer to General Fund	15,100	15,100
Other Funds Cash Transfer to General Fund	14,600	14,600
Patrol Officers FY02 - 03	41,570	0
Remote Officer Housing	2,474	0
Sworn Officer Salary Adjustments	672,900	672,900
Physical Therapy Examiners Board		
Cash Transfer to General Fund	100,000	100,000
Operating Lump Sum Appropriation	390,300	363,244
Other Funds Cash Transfer to General Fund	3,400	3,400
Private Postsecondary Education		
Operating Lump Sum Appropriation	334,600	304,412
Other Funds Cash Transfer to General Fund	3,500	3,500
Board of Respiratory Care Examiners		
Administrative Adjustments	323	323
Operating Lump Sum Appropriation	263,200	228,960
Other Funds Cash Transfer to General Fund	2,700	2,700
Relief Bill Cash Transfer FY08	520	520
Department of Racing		
Cash Transfer to General Fund	125,000	125,000
Cash Transfer to General Fund	440,000	440,000
Operating Lump Sum Appropriation	66,800	62,877
Operating Lump Sum Appropriation	446,900	440,203
Other Funds Cash Transfer to General Fund	200	200
Other Funds Cash Transfer to General Fund	3,100	3,100
Real Estate Department		
Cash Transfer to General Fund	5,000	5,000
Registrar of Contractors		
Cash Transfer to General Fund	2,066,300	2,066,300
Incentive Pay	113,700	50,988
Information Management System	3,683,000	593,946
Office Of Administrative Hearing	1,002,300	1,002,300

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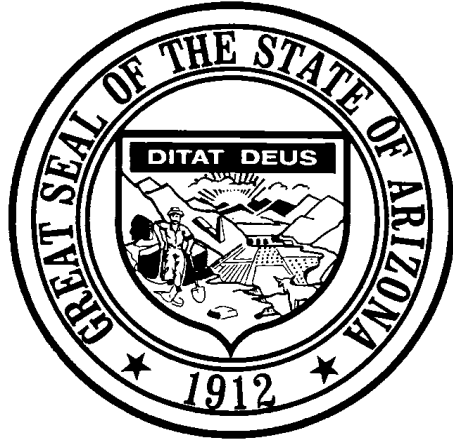
STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	10,667,000	10,023,213
Other Funds Cash Transfer to General Fund	132,500	132,500
Department of Revenue		
Operating Lump Sum Appropriation	630,500	628,523
Structural Pest Control Commission		
Administrative Adjustments	17,948	17,948
Operating Lump Sum Appropriation	2,875,300	2,491,374
Other Funds Cash Transfer to General Fund	26,600	26,600
Schools for the Deaf and the Blind		
Administrative Adjustments	91,316	91,316
Operating Lump Sum Appropriation - Phoenix	5,660,900	5,660,900
Operating Lump Sum Appropriation - Preschool/Outreach Prog	2,501,100	2,501,100
Operating Lump Sum Appropriation - Tucson	5,654,900	5,654,900
Voucher Fund Adjustment - Phoenix	186,500	186,500
Voucher Fund Adjustment - Preschool/Outreach	309,000	290,800
Voucher Fund Adjustment - Tucson	5,200	5,200
Supreme Court		
Administrative Adjustments	195	195
Administrative Adjustments	3,382	3,382
Case and Cash Management System	2,500,000	2,277,829
Cash Transfer to General Fund	1,500,000	1,500,000
Community Punishment	1,830,400	956,015
Community Punishment	500,000	499,999
Court Appointed Special Advocate	3,449,200	2,675,769
Drug Study	38,514	0
Juvenile Crime Reduction	5,187,800	5,095,818
Operating Lump Sum Appropriation	484,200	423,511
Other Funds Cash Transfer to General Fund	48,600	48,600
Other Funds Cash Transfer to General Fund	800	800
Other Funds Cash Transfer to General Fund	6,800	6,800
Other Funds Cash Transfer to General Fund	4,700	4,700
Other Funds Cash Transfer to General Fund	4,400	4,400
Other Funds Cash Transfer to General Fund	600	600
Reg Activities - Conf Intermediary	147,839	0
State Aid	3,053,600	2,230,049
State Aid	3,945,300	3,919,656
Secretary of State		
Other Funds Cash Transfer to General Fund	500	500
State Board of Psychologist Examiners		
Administrative Adjustments	713	713
Operating Lump Sum Appropriation	386,700	367,635
Other Funds Cash Transfer to General Fund	4,600	4,600
State Board of Technical Registration		
Administrative Adjustments	37,947	6,745
Operating Lump Sum Appropriation	1,753,200	1,455,812
Other Funds Cash Transfer to General Fund	13,400	13,400
Residential Utility Consumer Office		
Administrative Adjustments	208	208
Operating Lump Sum Appropriation	1,168,100	1,124,823
Other Funds Cash Transfer to General Fund	13,800	13,800
Professional Witnesses	131,200	16,736
Professional Witnesses FY 00 - 01	2,270	2,270

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Professional Witnesses FY 01 - 02	30,560	27,651
Professional Witnesses FY 02 - 03	9,943	4,326
Professional Witnesses FY 03 - 04	29,054	12,859
Professional Witnesses FY 04 - 05	91,129	37,368
Professional Witnesses FY 05 - 06	128,373	0
Professional Witnesses FY 06 - 07	119,576	0
Department of Veterans' Services		
Administrative Adjustments	221	221
Operating Lump Sum Appropriation	747,400	677,269
Veterinary Medical Examiners Board		
Administrative Adjustments	21,404	21,404
Operating Lump Sum Appropriation	477,700	449,539
Other Funds Cash Transfer to General Fund	4,300	4,300
Department of Water Resources		
Administrative Adjustments	21,565	21,565
Assured and Adequate Water Supply Admin	1,118,900	4,643
Other Funds Cash Transfer to General Fund	3,600	3,600
Other Funds Cash Transfer to General Fund	3,200	3,200
Other Funds Cash Transfer to General Fund	4,100	4,100
Other Funds Cash Transfer to General Fund	8,300	8,300
Other Funds Cash Transfer to General Fund	5,700	5,700
Department of Weights and Measures		
Administrative Adjustments	456	456
Administrative Adjustments	21,220	21,220
Operating Lump Sum Appropriation	135,000	133,239
Operating Lump Sum Appropriation - Vapor Recovery	639,098	595,715
Operating Lump Sum Appropriation - Oxygenated Fuel	895,702	892,288
Other Funds Cash Transfer to General Fund	10,100	10,100
Total Non-Major Special Revenue Funds Budgetary Expenditures	\$ 1,081,747,688	\$ 981,487,700



NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS

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

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

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

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

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

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT
ASSETS				
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ 1,405	\$ 15,436
Interest receivable	449	155	-	59
Due from other Funds	-	-	1,304	-
Restricted assets:				
Cash and pooled investments with State Treasurer	2,347	87	-	-
Cash held by trustee	-	-	13,820	-
Total Assets	\$ 2,796	\$ 242	\$ 16,529	\$ 15,495
FUND BALANCES				
Reserved for debt service	\$ 2,796	\$ 242	\$ 16,529	\$ 15,495
Total Fund Balances	\$ 2,796	\$ 242	\$ 16,529	\$ 15,495

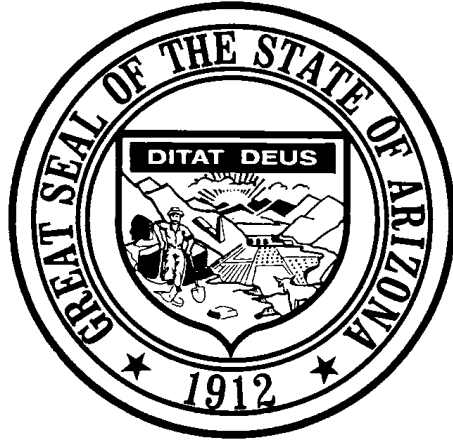
GRANT ANTICIPATION		
NOTES		TOTAL
\$	-	\$ 16,841
	1	664
	-	1,304
	173	2,607
	-	13,820
<u>\$</u>	<u>174</u>	<u>\$ 35,236</u>

<u>\$</u>	<u>174</u>	<u>\$ 35,236</u>
<u>\$</u>	<u>174</u>	<u>\$ 35,236</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT
REVENUES				
Taxes:				
Sales	\$ -	\$ -	\$ -	\$ 65,815
Earnings on investments	2,426	248	125	1,525
Other	-	-	-	-
Total Revenues	<u>2,426</u>	<u>248</u>	<u>125</u>	<u>67,340</u>
EXPENDITURES				
Debt service:				
Principal	60,645	19,045	28,495	50,790
Interest and other fiscal charges	75,581	10,679	7,967	50,290
Total Expenditures	<u>136,226</u>	<u>29,724</u>	<u>36,462</u>	<u>101,080</u>
(Deficiency) of Revenues Over Expenditures	<u>(133,800)</u>	<u>(29,476)</u>	<u>(36,337)</u>	<u>(33,740)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	134,246	29,718	40,689	20,910
Transfers out	-	-	(1,267)	(1,000)
Refunding bonds issued	-	-	-	82,880
Payment to refunded bond escrow agent	-	-	-	(86,547)
Certificates of participation issued	-	-	8,771	-
Premiums on debt issued	-	-	434	5,264
Total Other Financing Sources (Uses)	<u>134,246</u>	<u>29,718</u>	<u>48,627</u>	<u>21,507</u>
Net Change in Fund Balances	446	242	12,290	(12,233)
Fund Balances - Beginning	2,350	-	4,239	27,728
Fund Balances - Ending	<u>\$ 2,796</u>	<u>\$ 242</u>	<u>\$ 16,529</u>	<u>\$ 15,495</u>

GRANT ANTICIPATION		
NOTES		TOTAL
\$	-	\$ 65,815
	6	4,330
	-	-
	6	70,145
	52,580	211,555
	14,955	159,472
	67,535	371,027
	(67,529)	(300,882)
	67,599	293,162
	-	(2,267)
	-	82,880
	-	(86,547)
	-	8,771
	-	5,698
	67,599	301,697
	70	815
	104	34,421
\$	174	\$ 35,236



NON-MAJOR GOVERNMENTAL FUNDS CAPITAL PROJECTS FUNDS

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

The Grant Anticipation Notes Financed Fund administers proceeds from Arizona Transportation Board Grant Anticipation Notes. These monies are expended for the acquisition of right-of-way purchase, or construction of certain controlled access highways within Maricopa County.

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

The Maricopa Regional Area Road Debt Financed Fund (MRARF) administers the bond proceeds from the Transportation Board of the State of Arizona Transportation Excise Tax Revenue Bonds. These monies are spent on the construction of State highways within Maricopa County.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECTS FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	MRARF DEBT FINANCED
ASSETS				
Interest receivable	\$ 935	\$ 342	\$ 477	\$ 2,544
Restricted assets:				
Cash and pooled investments with State Treasurer	215,063	57,775	206,202	286,777
Cash held by trustee	-	-	32,332	-
Total Assets	<u>\$ 215,998</u>	<u>\$ 58,117</u>	<u>\$ 239,011</u>	<u>\$ 289,321</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	\$ -	\$ 6,616	\$ -	\$ -
Accrued liabilities	-	-	26	-
Total Liabilities	<u>-</u>	<u>6,616</u>	<u>26</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Highway construction	215,998	51,501	-	289,321
Other construction	-	-	238,985	-
Total Fund Balances	<u>215,998</u>	<u>51,501</u>	<u>238,985</u>	<u>289,321</u>
Total Liabilities and Fund Balances	<u>\$ 215,998</u>	<u>\$ 58,117</u>	<u>\$ 239,011</u>	<u>\$ 289,321</u>

TOTAL

\$ 4,298

765,817

32,332

\$ 802,447

\$ 6,616

26

6,642

556,820

238,985

795,805

\$ 802,447

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	MRARF DEBT FINANCED
REVENUES				
Earnings on investments	\$ 7,696	\$ 1,277	\$ 1,225	\$ 7,472
Total Revenues	<u>7,696</u>	<u>1,277</u>	<u>1,225</u>	<u>7,472</u>
EXPENDITURES				
Current:				
Transportation	37,865	3,479	-	17,968
Debt service:				
Interest and other fiscal charges	1,147	437	2,776	1,863
Capital outlay	159,330	17,809	2,915	86,431
Total Expenditures	<u>198,342</u>	<u>21,725</u>	<u>5,691</u>	<u>106,262</u>
(Deficiency) of Revenues Over Expenditures	<u>(190,646)</u>	<u>(20,448)</u>	<u>(4,466)</u>	<u>(98,790)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,592)	(279)	(3,468)	(2,318)
Bonds issued	193,950	-	-	370,000
Grant anticipation notes issued	-	68,000	-	-
Certificates of participation issued	-	-	230,219	-
Premium on debt issued	7,205	4,228	11,412	20,429
Total Other Financing Sources (Uses)	<u>199,563</u>	<u>71,949</u>	<u>238,163</u>	<u>388,111</u>
Net Change in Fund Balances	<u>8,917</u>	<u>51,501</u>	<u>233,697</u>	<u>289,321</u>
Fund Balances - Beginning	<u>207,081</u>	<u>-</u>	<u>5,288</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 215,998</u>	<u>\$ 51,501</u>	<u>\$ 238,985</u>	<u>\$ 289,321</u>

TOTAL

\$ 17,670
17,670

59,312

6,223

266,485

332,020

(314,350)

(7,657)

563,950

68,000

230,219

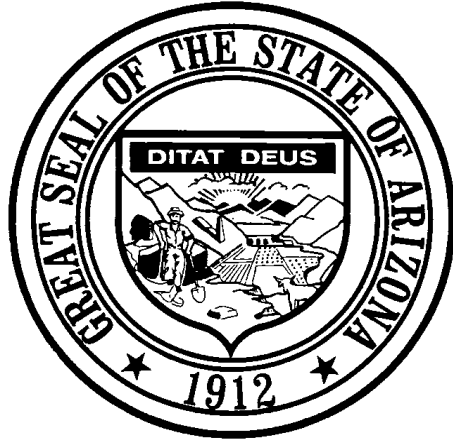
43,274

897,786

583,436

212,369

\$ 795,805



NON-MAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
ASSETS					
Current Assets:					
Cash	\$ 673	\$ 139	\$ -	\$ 21	\$ -
Cash and pooled investments with State Treasurer	793	953	1,964	5,501	-
Restricted cash and pooled investments with State Treasurer	-	-	-	404	77,630
Short-term investments	-	-	-	-	-
Receivables, net of allowances:					
Interest	7	6	8	-	670
Loans and notes	-	-	-	-	13,832
Other	1,694	4,437	499	-	-
Due from U.S. Government	337	-	-	-	-
Due from local governments	-	-	-	-	-
Due from other Funds	8	-	-	-	33,900
Inventories, at cost	2,942	3,404	708	-	-
Other current assets	2	128	248	81	-
Total Current Assets	<u>6,456</u>	<u>9,067</u>	<u>3,427</u>	<u>6,007</u>	<u>126,032</u>
Noncurrent Assets:					
Restricted assets:					
Loans and notes receivable, net of allowances	-	-	-	-	20,273
Capital assets:					
Land and other non-depreciable	182	695	8	3,809	-
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,040	2,950	165	5,360	-
Total Noncurrent Assets	<u>1,222</u>	<u>3,645</u>	<u>173</u>	<u>9,169</u>	<u>20,273</u>
Total Assets	<u>7,678</u>	<u>12,712</u>	<u>3,600</u>	<u>15,176</u>	<u>146,305</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	766	664	100	109	-
Accrued liabilities	270	816	93	131	6
Due to others	-	-	-	-	-
Due to other Funds	-	-	-	-	72,170
Unearned deferred revenue	-	41	2,974	-	-
Current portion of long-term debt	-	103	-	3	-
Current portion of other long-term liabilities	186	256	131	206	14
Total Current Liabilities	<u>1,222</u>	<u>1,880</u>	<u>3,298</u>	<u>449</u>	<u>72,190</u>
Noncurrent Liabilities:					
Contracts payable	-	-	-	-	-
Long-term debt	-	283	-	-	-
Other long-term liabilities	82	-	-	-	-
Total Noncurrent Liabilities	<u>82</u>	<u>283</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,304</u>	<u>2,163</u>	<u>3,298</u>	<u>449</u>	<u>72,190</u>
NET ASSETS					
Invested in capital assets, net of related debt	1,222	3,645	173	9,166	-
Restricted for:					
Loans and other financial assistance:					
Expendable	-	-	-	-	74,115
Other	-	-	-	-	-
Unrestricted (deficit)	5,152	6,904	129	5,561	-
Total Net Assets	<u>\$ 6,374</u>	<u>\$ 10,549</u>	<u>\$ 302</u>	<u>\$ 14,727</u>	<u>\$ 74,115</u>

HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ -	\$ 159	\$ 992
14,169	452	23,832
-	-	78,034
-	100	100
-	-	691
-	-	13,832
21	1,861	8,512
-	-	337
-	-	-
-	58	33,966
-	-	7,054
-	-	459
<u>14,190</u>	<u>2,630</u>	<u>167,809</u>
-	-	20,273
-	980	5,674
103	8,606	18,224
<u>103</u>	<u>9,586</u>	<u>44,171</u>
<u>14,293</u>	<u>12,216</u>	<u>211,980</u>
329	183	2,151
6,707	388	8,411
-	-	-
-	-	72,170
8,047	30	11,092
-	-	106
130	-	923
<u>15,213</u>	<u>601</u>	<u>94,853</u>
14,877	-	14,877
-	-	283
-	-	82
<u>14,877</u>	<u>-</u>	<u>15,242</u>
<u>30,090</u>	<u>601</u>	<u>110,095</u>
103	9,586	23,895
-	-	74,115
-	-	-
(15,900)	2,029	3,875
<u>\$ (15,797)</u>	<u>\$ 11,615</u>	<u>\$ 101,885</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS**
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

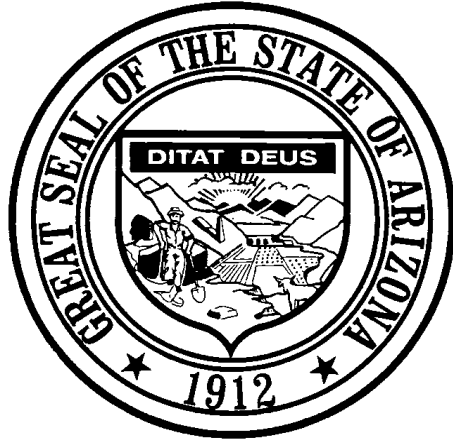
	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
OPERATING REVENUES					
Sales and charges for services	\$ 16,057	\$ 28,611	\$ 6,944	\$ 12,409	\$ -
Intergovernmental	1,127	-	-	-	-
Licenses, fees, and permits	-	-	-	-	-
Earnings on investments	-	-	-	-	1,755
Other	69	-	680	1,537	-
Total Operating Revenues	<u>17,253</u>	<u>28,611</u>	<u>7,624</u>	<u>13,946</u>	<u>1,755</u>
OPERATING EXPENSES					
Cost of sales and benefits	9,472	24,255	4,408	2,078	3
Interest on notes payable	-	-	-	-	3,796
Personal services	5,034	2,675	2,123	5,520	146
Contractual services	1,613	83	715	3,748	25
Depreciation and amortization	357	516	40	549	-
Insurance	-	-	-	135	-
Other	1,430	581	424	1,220	1
Total Operating Expenses	<u>17,906</u>	<u>28,110</u>	<u>7,710</u>	<u>13,250</u>	<u>3,971</u>
Operating Income (Loss)	<u>(653)</u>	<u>501</u>	<u>(86)</u>	<u>696</u>	<u>(2,216)</u>
NON-OPERATING REVENUES (EXPENSES)					
Gain (Loss) on sale of capital assets	-	21	(18)	-	-
Investment income	132	53	94	202	5,202
Other non-operating revenue	-	-	-	400	-
Other non-operating expense	-	-	(1)	-	(82)
Total Non-Operating Revenues (Expenses)	<u>132</u>	<u>74</u>	<u>75</u>	<u>602</u>	<u>5,120</u>
Income (Loss) Before Contributions and Transfers	<u>(521)</u>	<u>575</u>	<u>(11)</u>	<u>1,298</u>	<u>2,904</u>
Transfers in	105	-	-	-	-
Transfers out	-	(983)	-	(60)	-
Change in Net Assets	(416)	(408)	(11)	1,238	2,904
Total Net Assets - Beginning	<u>6,790</u>	<u>10,957</u>	<u>313</u>	<u>13,489</u>	<u>71,211</u>
Total Net Assets - Ending	<u>\$ 6,374</u>	<u>\$ 10,549</u>	<u>\$ 302</u>	<u>\$ 14,727</u>	<u>\$ 74,115</u>

HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ 77,042	\$ 13,711	\$ 154,774
-	-	1,127
-	635	635
-	-	1,755
-	33	2,319
<u>77,042</u>	<u>14,379</u>	<u>160,610</u>
71,639	334	112,189
-	-	3,796
2,908	10,880	29,286
1,258	703	8,145
67	320	1,849
-	155	290
953	2,053	6,662
<u>76,825</u>	<u>14,445</u>	<u>162,217</u>
<u>217</u>	<u>(66)</u>	<u>(1,607)</u>
-	-	3
466	12	6,161
10	-	410
-	-	(83)
<u>476</u>	<u>12</u>	<u>6,491</u>
693	(54)	4,884
7,250	-	7,355
-	-	(1,043)
7,943	(54)	11,196
(23,740)	11,669	90,689
<u>\$ (15,797)</u>	<u>\$ 11,615</u>	<u>\$ 101,885</u>

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 15,448	\$ 28,063	\$ 6,627	\$ 12,456	\$ 1,630
Receipts from federal and local governments	934	-	-	-	-
Receipts from repayment of loans to local governments	-	-	-	-	7,715
Receipts from other Funds	-	-	-	-	65,000
Payments to suppliers or insurance companies	(9,440)	(25,295)	(5,369)	(7,185)	(27)
Payments to employees	(4,954)	(2,171)	(2,162)	(5,499)	(146)
Payments for loans to local governments	-	-	-	-	(26,038)
Other receipts (payments)	(2,976)	-	686	1,537	(1)
Net Cash Provided (Used) by Operating Activities	(988)	597	(218)	1,309	48,133
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Grants and contributions received	-	-	-	-	-
Proceeds from interfund loans	-	-	-	-	50,000
Transfers from other Funds	103	-	-	-	-
Payments of interfund loans	-	-	-	-	(156,160)
Transfers to other Funds	-	(983)	-	(60)	(2)
Other receipts	-	-	-	400	-
Net Cash Provided (Used) by Non-capital Financing Activities	103	(983)	-	340	(106,162)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from capital debt, installment purchase contracts, and capital leases	-	386	-	-	-
Acquisition and construction of capital assets	(248)	(852)	(5)	(2,711)	-
Principal paid on capital debt, installment purchase contracts, and capital leases	-	-	-	(19)	-
Net Cash (Used) by Capital and Related Financing Activities	(248)	(466)	(5)	(2,730)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends from investments	136	67	93	202	5,604
Purchase of investments	-	-	-	-	-
Other (payments)	-	-	(1)	-	(80)
Net Cash Provided by Investing Activities	136	67	92	202	5,524
Net Increase (Decrease) in Cash and Cash Equivalents	(997)	(785)	(131)	(879)	(52,505)
Cash and Cash Equivalents - Beginning	2,463	1,877	2,095	6,805	130,135
Cash and Cash Equivalents - Ending	\$ 1,466	\$ 1,092	\$ 1,964	\$ 5,926	\$ 77,630
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (653)	\$ 501	\$ (86)	\$ 696	\$ (2,216)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	357	516	40	549	-
Loss on sale of capital assets	17	-	-	-	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(588)	(589)	(89)	47	(18,323)
(Increase) in due from U.S. Government	(193)	-	-	-	-
Decrease in due from local governments	-	-	-	-	79
(Increase) decrease in due from other Funds	-	-	-	-	64,796
(Increase) decrease in inventories, at cost	(116)	9	349	-	-
(Increase) decrease in other assets	7	-	(11)	(45)	-
Increase (decrease) in accounts payable	169	(385)	(160)	41	-
Increase (decrease) in accrued liabilities	10	491	(33)	7	1
Increase (decrease) in due to other Funds	(4)	-	-	-	3,796
Increase (decrease) deferred revenue	(35)	41	(222)	-	-
Increase (decrease) in other liabilities	41	13	(6)	14	-
Net Cash Provided (Used) by Operating Activities	\$ (988)	\$ 597	\$ (218)	\$ 1,309	\$ 48,133
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES					
Change in fair value of investments	\$ 7	\$ 4	\$ 11	\$ 18	\$ 497
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ 7	\$ 4	\$ 11	\$ 18	\$ 497

HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ 75,034	\$ 14,419	\$ 153,677
-	-	934
-	-	7,715
-	-	65,000
(78,183)	(3,197)	(128,696)
(2,888)	(10,914)	(28,734)
-	-	(26,038)
-	33	(721)
<u>(6,037)</u>	<u>341</u>	<u>43,137</u>
10	-	10
-	-	50,000
7,250	-	7,353
-	-	(156,160)
-	-	(1,045)
-	-	400
<u>7,260</u>	<u>-</u>	<u>(99,442)</u>
-	-	386
(41)	-	(3,857)
-	-	(19)
<u>(41)</u>	<u>-</u>	<u>(3,490)</u>
467	14	6,583
-	(3)	(3)
-	-	(81)
<u>467</u>	<u>11</u>	<u>6,499</u>
1,649	352	(53,296)
12,520	259	156,154
<u>\$ 14,169</u>	<u>\$ 611</u>	<u>\$ 102,858</u>
\$ 217	\$ (66)	\$ (1,607)
67	320	1,849
-	-	17
-	44	(19,498)
-	-	(193)
-	-	79
-	(1)	64,795
-	-	242
3	-	(46)
(554)	48	(841)
(3,785)	(34)	(3,343)
-	-	3,792
(2,006)	30	(2,192)
21	-	83
<u>\$ (6,037)</u>	<u>\$ 341</u>	<u>\$ 43,137</u>
\$ 23	\$ -	\$ 560
<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 560</u>



INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION	TECHNOLOGY
ASSETS					
Current Assets:					
Cash	\$ -	\$ -	\$ -	\$ 1,301	\$ -
Cash and pooled investments with State Treasurer	56,762	3,699	99,700	3,432	3,329
Receivables, net of allowances:					
Interest	-	33	-	-	-
Other	60	-	7,789	2,811	2,945
Due from U.S. Government	-	-	1,813	-	-
Due from other Funds	2	-	-	50	1,015
Inventories, at cost	-	3,525	-	-	-
Other current assets	3,003	-	-	-	1,430
Total Current Assets	<u>59,827</u>	<u>7,257</u>	<u>109,302</u>	<u>7,594</u>	<u>8,719</u>
Noncurrent Assets:					
Capital assets:					
Buildings, equipment, and other depreciable, net of accumulated depreciation	93	55,625	39	1,776	4,568
Total Noncurrent Assets	<u>93</u>	<u>55,625</u>	<u>39</u>	<u>1,776</u>	<u>4,568</u>
Total Assets	<u>59,920</u>	<u>62,882</u>	<u>109,341</u>	<u>9,370</u>	<u>13,287</u>
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	2,708	37	80,156	690	1,073
Accrued liabilities	251	609	101	-	-
Due to other Funds	122	-	1,239	-	53
Current portion of accrued insurance losses	52,126	-	-	-	-
Current portion of long-term debt	-	2,769	-	-	-
Current portion of other long-term liabilities	286	522	135	48	467
Total Current Liabilities	<u>55,493</u>	<u>3,937</u>	<u>81,631</u>	<u>738</u>	<u>1,593</u>
Noncurrent Liabilities:					
Accrued insurance losses	311,801	-	-	-	-
Long-term debt	-	3,110	-	-	-
Other long-term liabilities	-	234	-	-	-
Total Noncurrent Liabilities	<u>311,801</u>	<u>3,344</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>367,294</u>	<u>7,281</u>	<u>81,631</u>	<u>738</u>	<u>1,593</u>
NET ASSETS					
Invested in capital assets, net of related debt	93	49,746	39	1,776	4,568
Unrestricted (deficit)	(307,467)	5,855	27,671	6,856	7,126
Total Net Assets	<u>\$ (307,374)</u>	<u>\$ 55,601</u>	<u>\$ 27,710</u>	<u>\$ 8,632</u>	<u>\$ 11,694</u>

RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ -	\$ -	\$ 1,301
10,299	6,744	183,965
-	-	33
-	973	14,578
-	-	1,813
-	873	1,940
-	69	3,594
-	8	4,441
<u>10,299</u>	<u>8,667</u>	<u>211,665</u>
-	14,985	77,086
-	14,985	77,086
<u>10,299</u>	<u>23,652</u>	<u>288,751</u>
-	878	85,542
-	-	961
-	-	1,414
-	-	52,126
-	-	2,769
<u>7,719</u>	<u>33</u>	<u>9,210</u>
<u>7,719</u>	<u>911</u>	<u>152,022</u>
-	-	311,801
-	-	3,110
<u>77,184</u>	<u>-</u>	<u>77,418</u>
<u>77,184</u>	<u>-</u>	<u>392,329</u>
<u>84,903</u>	<u>911</u>	<u>544,351</u>
-	14,985	71,207
<u>(74,604)</u>	<u>7,756</u>	<u>(326,807)</u>
<u>\$ (74,604)</u>	<u>\$ 22,741</u>	<u>\$ (255,600)</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS**
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION	TECHNOLOGY
OPERATING REVENUES					
Sales and charges for services	\$ 103,304	\$ 40,268	\$ 702,751	\$ 8,693	\$ 20,540
Other	-	35	4	-	-
Total Operating Revenues	<u>103,304</u>	<u>40,303</u>	<u>702,755</u>	<u>8,693</u>	<u>20,540</u>
OPERATING EXPENSES					
Cost of sales and benefits	-	12,832	682,089	143	1,177
Personal services	6,262	14,439	2,509	1,288	9,225
Contractual services	29,503	156	1,913	422	1,892
Depreciation and amortization	39	9,030	16	716	1,505
Insurance	65,903	605	57	32	231
Other	1,746	1,612	35	2,535	6,487
Total Operating Expenses	<u>103,453</u>	<u>38,674</u>	<u>686,619</u>	<u>5,136</u>	<u>20,517</u>
Operating Income (Loss)	<u>(149)</u>	<u>1,629</u>	<u>16,136</u>	<u>3,557</u>	<u>23</u>
NON-OPERATING REVENUES (EXPENSES)					
Gain (loss) on sale of capital assets	-	(127)	-	-	(26)
Investment income	-	371	-	-	-
Interest expense	-	(263)	-	-	-
Other non-operating revenue	1	45	-	-	-
Total Non-Operating Revenues (Expenses)	<u>1</u>	<u>26</u>	<u>-</u>	<u>-</u>	<u>(26)</u>
Income (Loss) Before Contributions and Transfers	<u>(148)</u>	<u>1,655</u>	<u>16,136</u>	<u>3,557</u>	<u>(3)</u>
Capital grants and contributions	-	3,975	-	-	-
Transfers out	<u>(7,385)</u>	<u>(3,286)</u>	<u>(168)</u>	<u>(154)</u>	<u>(395)</u>
Change in Net Assets	(7,533)	2,344	15,968	3,403	(398)
Total Net Assets - Beginning, as restated	<u>(299,841)</u>	<u>53,257</u>	<u>11,742</u>	<u>5,229</u>	<u>12,092</u>
Total Net Assets - Ending	<u><u>\$ (307,374)</u></u>	<u><u>\$ 55,601</u></u>	<u><u>\$ 27,710</u></u>	<u><u>\$ 8,632</u></u>	<u><u>\$ 11,694</u></u>

RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 13,833	\$ 11,723	\$ 901,112
-	11	50
<u>13,833</u>	<u>11,734</u>	<u>901,162</u>
12,216	5,396	713,853
106	861	34,690
4	130	34,020
-	2,948	14,254
3	1,242	68,073
-	1,639	14,054
<u>12,329</u>	<u>12,216</u>	<u>878,944</u>
<u>1,504</u>	<u>(482)</u>	<u>22,218</u>
-	21	(132)
-	-	371
-	-	(263)
-	-	46
<u>-</u>	<u>21</u>	<u>22</u>
<u>1,504</u>	<u>(461)</u>	<u>22,240</u>
-	784	4,759
<u>(3,484)</u>	<u>(3,250)</u>	<u>(18,122)</u>
(1,980)	(2,927)	8,877
<u>(72,624)</u>	<u>25,668</u>	<u>(264,477)</u>
<u>\$ (74,604)</u>	<u>\$ 22,741</u>	<u>\$ (255,600)</u>

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services / premiums	\$ 103,304	\$ 40,268	\$ 700,002	\$ 6,362
Payments to suppliers or insurance companies	(76,562)	(15,928)	(676,139)	(1,858)
Payments to employees	(6,210)	(14,413)	(2,494)	(1,267)
Payments to retirees	-	-	-	-
Other receipts	-	28	4	-
Net Cash Provided by Operating Activities	<u>20,532</u>	<u>9,955</u>	<u>21,373</u>	<u>3,237</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers to other Funds	(7,385)	(3,286)	(168)	(154)
Other receipts	1	-	-	-
Net Cash (Used) by Non-capital Financing Activities	<u>(7,384)</u>	<u>(3,286)</u>	<u>(168)</u>	<u>(154)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	724	-	-
Acquisition and construction of capital assets	(43)	(9,477)	(10)	(1,697)
Interest paid on capital debt, installment purchase contracts, and capital leases	-	(263)	-	-
Principal paid on capital debt, installment purchase contracts, and capital leases	-	(2,672)	-	-
Other receipts	-	51	-	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(43)</u>	<u>(11,637)</u>	<u>(10)</u>	<u>(1,697)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends from investments	-	365	-	-
Net Cash Provided by Investing Activities	<u>-</u>	<u>365</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	13,105	(4,603)	21,195	1,386
Cash and Cash Equivalents - Beginning	43,657	\$ 8,302	\$ 78,505	\$ 3,347
Cash and Cash Equivalents - Ending	<u>\$ 56,762</u>	<u>\$ 3,699</u>	<u>\$ 99,700</u>	<u>\$ 4,733</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (149)	\$ 1,629	\$ 16,136	\$ 3,557
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	39	9,030	16	716
Net changes in assets and liabilities:				
(Increase) in receivables, net of allowances	(3)	(7)	(2,749)	(2,281)
(Increase) in due from U.S. Government	-	-	(813)	-
(Increase) decrease in due from other Funds	3	-	-	(50)
(Increase) decrease in inventories, at cost	-	(592)	-	726
(Increase) decrease in other assets	266	-	-	-
Increase (decrease) in accounts payable	411	(202)	8,302	649
Increase in accrued liabilities	32	60	13	-
Increase (decrease) in due to other Funds	91	-	453	(101)
Increase in accrued insurance losses	19,822	-	-	-
Increase in other liabilities	20	37	15	21
Net Cash Provided by Operating Activities	<u>\$ 20,532</u>	<u>\$ 9,955</u>	<u>\$ 21,373</u>	<u>\$ 3,237</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
Contribution of capital assets from other Funds	\$ -	\$ 3,975	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ 3,975</u>	<u>\$ -</u>	<u>\$ -</u>

TECHNOLOGY	RETIREE SICK LEAVE	MOTOR POOL	TOTAL
\$ 20,429	\$ 13,833	\$ 11,141	\$ 895,339
(9,540)	(7)	(7,992)	(788,026)
(9,189)	(106)	(860)	(34,539)
-	(10,685)	-	(10,685)
-	-	11	43
<u>1,700</u>	<u>3,035</u>	<u>2,300</u>	<u>62,132</u>

(395)	(3,484)	(3,250)	(18,122)
-	-	-	1

<u>(395)</u>	<u>(3,484)</u>	<u>(3,250)</u>	<u>(18,121)</u>
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-	-	307	1,031
(4,204)	-	(3,828)	(19,259)

-	-	-	(263)
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-	-	-	(2,672)
---	---	---	---------

-	-	-	51
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<u>(4,204)</u>	<u>-</u>	<u>(3,521)</u>	<u>(21,112)</u>
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-	-	-	365
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-	-	-	365
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(2,899)	(449)	(4,471)	23,264
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\$ 6,228	\$ 10,748	\$ 11,215	\$ 162,002
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<u>\$ 3,329</u>	<u>\$ 10,299</u>	<u>\$ 6,744</u>	<u>\$ 185,266</u>
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\$ 23	\$ 1,504	\$ (482)	\$ 22,218
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1,505	-	2,948	14,254
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(112)	-	(973)	(6,125)
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-	-	-	(813)
---	---	---	-------

1	-	391	345
---	---	-----	-----

107	-	(55)	186
-----	---	------	-----

(75)	-	(1)	190
------	---	-----	-----

166	-	472	9,798
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-	-	-	105
---	---	---	-----

49	-	(1)	491
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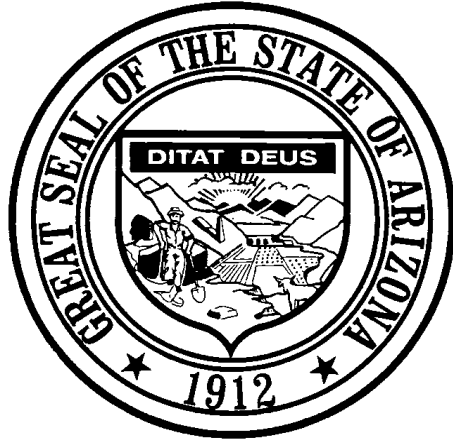
-	-	-	19,822
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36	1,531	1	1,661
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<u>\$ 1,700</u>	<u>\$ 3,035</u>	<u>\$ 2,300</u>	<u>\$ 62,132</u>
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\$ -	\$ -	\$ 784	\$ 4,759
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<u>\$ -</u>	<u>\$ -</u>	<u>\$ 784</u>	<u>\$ 4,759</u>
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PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

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

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

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

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

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

Other Employee Benefit Trust Funds account for health insurance premium subsidies and long-term disability benefits paid by the ASRS to State employees and employees of other governmental entities participating in the plans.

The Health Benefit Supplement Fund is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

The Long-Term Disability Fund is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for long term disability benefits to eligible participants.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	PENSION TRUST FUNDS			
	ASRS	PSPRS	EORP	CORP
ASSETS				
Cash	\$ 23,304	\$ 95,337	\$ 5,974	\$ 58,316
Receivables, net of allowances:				
Accrued interest and dividends	70,089	18,456	1,231	4,015
Securities sold	413,991	95,957	6,681	10,997
Forward contract receivable	1,532,416	-	-	-
Contributions	49,956	12,900	441	3,366
Court fees	-	-	362	-
Miscellaneous receivables	5,966	2,208	12	5
Total receivables	<u>2,072,418</u>	<u>129,521</u>	<u>8,727</u>	<u>18,383</u>
Investments, at fair value:				
Temporary investments	1,574,989	-	-	-
Temporary investments from securities lending	3,634,660	-	-	-
U.S. Government securities	4,176,962	654,259	40,292	152,259
Corporate bonds	2,339,164	591,086	39,794	124,034
Corporate stocks	16,606,103	3,285,911	215,778	737,895
Real estate mortgages and contracts	492,432	-	-	-
Collateral investment pool	-	1,028,902	61,810	240,882
Other investments	197,056	315,227	24,796	73,970
Total investments	<u>29,021,366</u>	<u>5,875,385</u>	<u>382,470</u>	<u>1,329,040</u>
Property and equipment, net of accumulated depreciation	<u>-</u>	<u>4,162</u>	<u>278</u>	<u>734</u>
Total Assets	<u>31,117,088</u>	<u>6,104,405</u>	<u>397,449</u>	<u>1,406,473</u>
LIABILITIES				
Accounts payable and other current liabilities	1,572,190	1,059	482	1,651
Payable for securities purchased	1,193,051	55,163	3,092	22,352
Obligation under securities loan agreements	<u>3,634,660</u>	<u>1,028,902</u>	<u>61,810</u>	<u>240,882</u>
Total Liabilities	<u>6,399,901</u>	<u>1,085,124</u>	<u>65,384</u>	<u>264,885</u>
NET ASSETS				
Held in Trust for Pension Benefits	<u>\$ 24,717,187</u>	<u>\$ 5,019,281</u>	<u>\$ 332,065</u>	<u>\$ 1,141,588</u>

OTHER EMPLOYEE
BENEFIT TRUST FUNDS

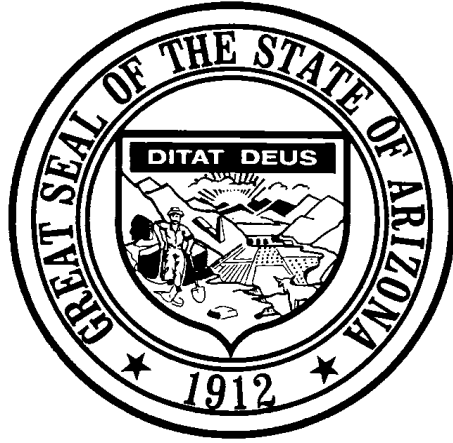
HEALTH BENEFIT SUPPLEMENT FUND		LONG-TERM DISABILITY FUND		TOTAL
\$	2,430	\$	7,061	\$ 192,422
	3,077		-	96,868
	18,177		-	545,803
	67,283		-	1,599,699
	3,076	2,910		72,649
	-	-		362
	170	2,360		10,721
	<u>91,783</u>	<u>5,270</u>		<u>2,326,102</u>
	63,786	3,003		1,641,778
	159,586	-		3,794,246
	180,597	34,448		5,238,817
	101,810	25,102		3,220,990
	737,950	170,509		21,754,146
	21,429	-		513,861
	-	-		1,331,594
	8,709	-		619,758
	<u>1,273,867</u>	<u>233,062</u>		<u>38,115,190</u>
	-	-		5,174
	<u>1,368,080</u>	<u>245,393</u>		<u>40,638,888</u>
	68,125	222		1,643,729
	52,383	-		1,326,041
	<u>159,586</u>	<u>-</u>		<u>5,125,840</u>
	<u>280,094</u>	<u>222</u>		<u>8,095,610</u>
\$	<u>1,087,986</u>	\$	<u>245,171</u>	\$ <u>32,543,278</u>

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	PENSION TRUST FUNDS			
	ASRS	PSPRS	EORP	CORP
ADDITIONS:				
Member contributions	\$ 857,813	\$ 97,157	\$ 4,356	\$ 51,700
Employer contributions	759,482	221,733	7,276	43,859
Transfers from other Funds	-	-	-	164,194
Member purchase of service credit	90,030	9,483	1,045	871
Court fees	-	-	4,155	-
Investment income (loss):				
Net (decrease) in fair value of investments	(2,511,535)	(582,953)	(36,152)	(102,765)
Interest income	254,353	90,974	7,696	17,871
Dividends	313,367	80,380	5,347	16,817
Real estate	22,769	-	-	-
Other investment income	13,919	-	-	-
Securities lending income	152,205	38,078	2,379	7,311
Total investment income (loss)	(1,754,922)	(373,521)	(20,730)	(60,766)
Less investment expenses:				
Investment activity expenses	77,936	5,485	2,052	1,082
Security lending expenses	130,401	32,500	368	6,192
Net investment income (loss)	(1,963,259)	(411,506)	(23,150)	(68,040)
Other additions	5,196	1,696	573	3,218
Total Additions	(250,738)	(81,437)	(5,745)	195,802
DEDUCTIONS:				
Retirement and disability benefits	1,768,219	418,386	31,607	48,973
Death benefits	22,648	-	-	-
Refunds to withdrawing members, including interest	104,387	7,885	64	16,212
Administrative expense	29,195	4,662	355	1,103
Transfer to other Funds	164,194	-	-	-
Other deductions	12,990	143	5	864
Total Deductions	2,101,633	431,076	32,031	67,152
Change in net assets held in trust for pension benefits	(2,352,371)	(512,513)	(37,776)	128,650
Net Assets - Beginning	27,069,558	5,531,794	369,841	1,012,938
Net Assets - Ending	\$ 24,717,187	\$ 5,019,281	\$ 332,065	\$ 1,141,588

OTHER EMPLOYEE
BENEFIT TRUST FUNDS

HEALTH		
BENEFIT SUPPLEMENT FUND	LONG-TERM DISABILITY FUND	TOTAL
\$ -	\$ 47,171	\$ 1,058,197
99,027	47,171	1,178,548
-	-	164,194
-	-	101,429
-	-	4,155
(112,026)	(22,339)	(3,367,770)
11,339	122	382,355
13,978	9	429,898
1,016	-	23,785
644	585	15,148
6,789	-	206,762
(78,260)	(21,623)	(2,309,822)
3,483	-	90,038
5,816	-	175,277
(87,559)	(21,623)	(2,575,137)
-	-	10,683
11,468	72,719	(57,931)
85,132	68,284	2,420,601
-	-	22,648
-	-	128,548
1,282	2,750	39,347
-	-	164,194
21	-	14,023
86,435	71,034	2,789,361
(74,967)	1,685	(2,847,292)
1,162,953	243,486	35,390,570
\$ 1,087,986	\$ 245,171	\$ 32,543,278



INVESTMENT TRUST FUNDS

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

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

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

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

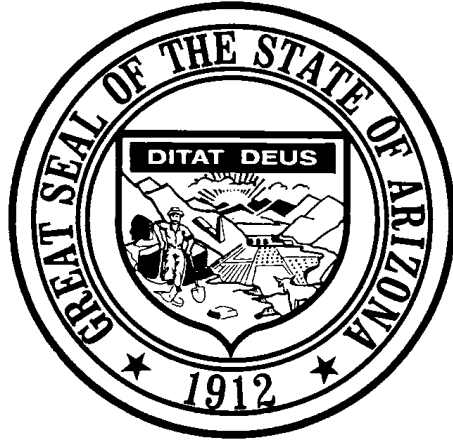
Local Government Investment Pool – Government is an Investment Trust Account composed of repurchase agreements and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

STATE OF ARIZONA
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL- LONG-TERM	LOCAL GOVERNMENT INVESTMENT POOL- GOVERNMENT	TOTAL
ASSETS					
Receivables, net of allowances:					
Accrued interest and dividends	\$ 1,019	\$ 4,405	\$ 441	\$ 7,830	\$ 13,695
Total receivables	<u>1,019</u>	<u>4,405</u>	<u>441</u>	<u>7,830</u>	<u>13,695</u>
Investments, at fair value:					
U.S. Government securities	65,821	1,913,126	37,557	455,780	2,472,284
Corporate bonds	8,768	-	-	-	8,768
Corporate notes	33,778	737,902	16,471	-	788,151
Repurchase agreements	-	-	-	1,642,653	1,642,653
Money market mutual funds	4,881	-	5	-	4,886
Other	-	4,248	-	-	4,248
Total investments	<u>113,248</u>	<u>2,655,276</u>	<u>54,033</u>	<u>2,098,433</u>	<u>4,920,990</u>
Total Assets	<u>114,267</u>	<u>2,659,681</u>	<u>54,474</u>	<u>2,106,263</u>	<u>4,934,685</u>
LIABILITIES					
Payable for securities purchased	-	-	1,040	-	1,040
Due to local governments	1,038	2,113	456	9,752	13,359
Total Liabilities	<u>1,038</u>	<u>2,113</u>	<u>1,496</u>	<u>9,752</u>	<u>14,399</u>
NET ASSETS					
Held in trust for pool participants	<u>\$ 113,229</u>	<u>\$ 2,657,568</u>	<u>\$ 52,978</u>	<u>\$ 2,096,511</u>	<u>\$ 4,920,286</u>
Net assets consist of:					
Participant shares outstanding	113,229	2,657,568	53,007	2,096,511	4,920,315
Participants' net asset value (net assets/shares outstanding)	\$ 1.00	\$ 1.00	\$ 0.9995	\$ 1.00	

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL- LONG-TERM	LOCAL GOVERNMENT INVESTMENT POOL- GOVERNMENT	TOTAL
ADDITIONS:					
Investment income:					
Net increase (decrease) in fair value of investments	\$ 107	\$ (6,532)	\$ 190	\$ 1,317	\$ (4,918)
Interest income	5,243	91,927	1,549	69,593	168,312
Total investment income	5,350	85,395	1,739	70,910	163,394
Less: Investment activity expenses	73	1,466	23	1,318	2,880
Net investment income	5,277	83,929	1,716	69,592	160,514
Capital share and individual account transactions:					
Shares sold	7,735	4,240,878	27,264	2,634,858	6,910,735
Reinvested interest income	5,181	97,010	1,458	73,221	176,870
Shares redeemed	(5,483)	(3,553,248)	(3,355)	(2,577,370)	(6,139,456)
Net capital share and individual account transactions	7,433	784,640	25,367	130,709	948,149
Total Additions	12,710	868,569	27,083	200,301	1,108,663
DEDUCTIONS:					
Dividends to investors	5,277	83,929	1,717	69,591	160,514
Total Deductions	5,277	83,929	1,717	69,591	160,514
Change in net assets held in trust for pool participants	7,433	784,640	25,366	130,710	948,149
Net Assets - Beginning	105,796	1,872,928	27,612	1,965,801	3,972,137
Net Assets - Ending	\$ 113,229	\$ 2,657,568	\$ 52,978	\$ 2,096,511	\$ 4,920,286



AGENCY FUNDS

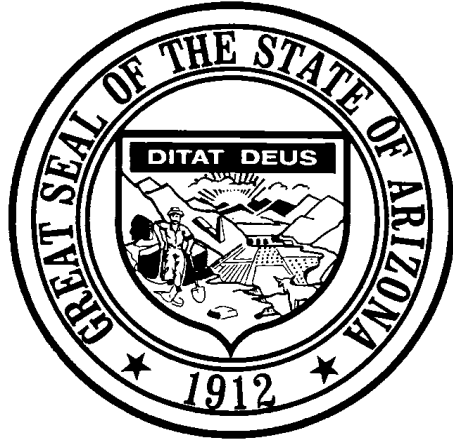
Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, and payment of the health insurance subsidy by the PSPRS, the EORP, and the CORP, where the State acts as an agent for distribution to other governmental units or organizations.

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

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

The Health Insurance Subsidy Fund accounts for other post-employment benefit payments of the health insurance subsidy by the PSPRS, the EORP, and the CORP for eligible retired and disabled members.

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



STATE OF ARIZONA
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 AGENCY FUNDS
 JUNE 30, 2008
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
ASSETS				
Cash	\$ -	\$ -	\$ 29,474	\$ 29,474
Cash and pooled investments with State Treasurer	-	30,074	200,650	230,724
Receivables, net of allowances:				
Accrued interest	-	57	83	140
Due from others	-	-	78,655	78,655
Other investments	-	-	13,362	13,362
Custodial securities in safekeeping	3,256,879	-	87,498	3,344,377
Total Assets	\$ 3,256,879	\$ 30,131	\$ 409,722	\$ 3,696,732
LIABILITIES				
Due to local governments	\$ -	\$ 11,716	\$ 161,016	\$ 172,732
Due to others	3,256,879	18,415	248,706	3,524,000
Total Liabilities	\$ 3,256,879	\$ 30,131	\$ 409,722	\$ 3,696,732

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2008
 (Expressed in Thousands)

	BALANCE JULY 1, 2007	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2008
TREASURER CUSTODIAL SECURITIES FUND				
Assets:				
Custodial securities in safekeeping	\$ 2,714,882	\$ 2,809,408	\$ 2,267,411	\$ 3,256,879
Total Assets	<u>\$ 2,714,882</u>	<u>\$ 2,809,408</u>	<u>\$ 2,267,411</u>	<u>\$ 3,256,879</u>
Liabilities:				
Due to others	\$ 2,714,882	\$ 2,809,408	\$ 2,267,411	\$ 3,256,879
Total Liabilities	<u>\$ 2,714,882</u>	<u>\$ 2,809,408</u>	<u>\$ 2,267,411</u>	<u>\$ 3,256,879</u>
OTHER TREASURER FUNDS				
Assets:				
Cash and pooled investments with State Treasurer	\$ 30,250	\$ 597,616	\$ 597,792	\$ 30,074
Receivables, net of allowances:				
Accrued interest	105	57	105	57
Total Assets	<u>\$ 30,355</u>	<u>\$ 597,673</u>	<u>\$ 597,897</u>	<u>\$ 30,131</u>
Liabilities:				
Due to local governments	\$ 10,248	\$ 540,911	\$ 539,443	\$ 11,716
Due to others	20,107	48,140	49,832	18,415
Total Liabilities	<u>\$ 30,355</u>	<u>\$ 589,051</u>	<u>\$ 589,275</u>	<u>\$ 30,131</u>
HEALTH INSURANCE SUBSIDY FUND				
Assets:				
Cash	\$ -	\$ 14,809	\$ 14,809	\$ -
Total Assets	<u>\$ -</u>	<u>\$ 14,809</u>	<u>\$ 14,809</u>	<u>\$ -</u>
Liabilities:				
Benefits payable	\$ -	\$ 14,809	\$ 14,809	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ 14,809</u>	<u>\$ 14,809</u>	<u>\$ -</u>

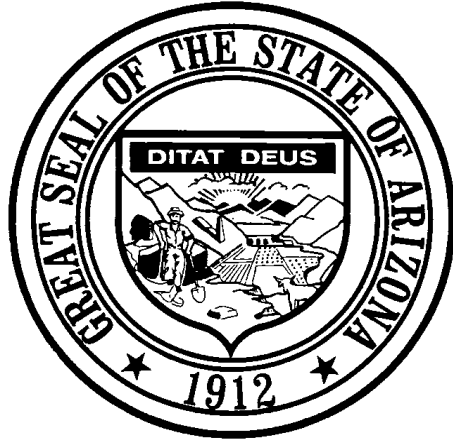
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STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2008
 (Expressed in Thousands)

	BALANCE JULY 1, 2007	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2008
OTHER FUNDS				
Assets:				
Cash	\$ 34,879	\$ 728,192	\$ 733,597	\$ 29,474
Cash and pooled investments with State Treasurer	239,812	5,960,768	5,999,930	200,650
Short-term investments	5,096	-	5,096	-
Receivables, net of allowances:				
Accrued interest	283	77	277	83
Due from others	76,257	78,655	76,257	78,655
Other investments	4,917	13,362	4,917	13,362
Custodial securities in safekeeping	74,600	87,498	74,600	87,498
Total Assets	<u>\$ 435,844</u>	<u>\$ 6,868,552</u>	<u>\$ 6,894,674</u>	<u>\$ 409,722</u>
Liabilities:				
Due to local governments	\$ 179,389	\$ 8,536,464	\$ 8,554,837	\$ 161,016
Due to others	256,455	1,130,838	1,138,587	248,706
Total Liabilities	<u>\$ 435,844</u>	<u>\$ 9,667,302</u>	<u>\$ 9,693,424</u>	<u>\$ 409,722</u>

COMBINED TOTAL ALL AGENCY FUNDS

Assets:				
Cash	\$ 34,879	\$ 743,001	\$ 748,406	\$ 29,474
Cash and pooled investments with State Treasurer	270,062	6,558,384	6,597,722	230,724
Short-term investments	5,096	-	5,096	-
Receivables, net of allowances:				
Accrued interest	388	134	382	140
Due from others	76,257	78,655	76,257	78,655
Other investments	4,917	13,362	4,917	13,362
Custodial securities in safekeeping	2,789,482	2,896,906	2,342,011	3,344,377
Total Assets	<u>\$ 3,181,081</u>	<u>\$ 10,290,442</u>	<u>\$ 9,774,791</u>	<u>\$ 3,696,732</u>
Liabilities:				
Benefits payable	\$ -	\$ 14,809	\$ 14,809	\$ -
Due to local governments	189,637	9,077,375	9,094,280	172,732
Due to others	2,991,444	3,988,386	3,455,830	3,524,000
Total Liabilities	<u>\$ 3,181,081</u>	<u>\$ 13,080,570</u>	<u>\$ 12,564,919</u>	<u>\$ 3,696,732</u>



NON-MAJOR UNIVERSITIES – AFFILIATED COMPONENT UNITS

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

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

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

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

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

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

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

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

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

Downtown Phoenix Student Housing, LLC provides facilities for use by students of the ASU.

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

The University of Arizona Campus Research Corporation was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park and related properties.

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

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2008
(Expressed in Thousands)

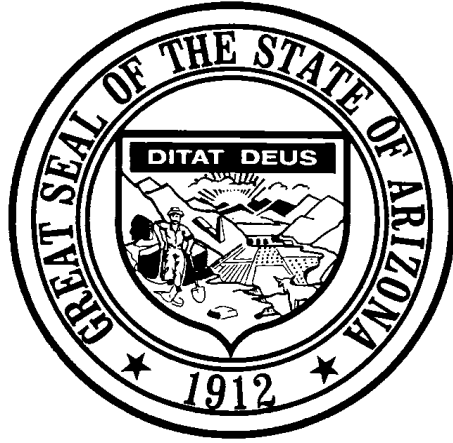
	NORTHERN ARIZONA UNIVERSITY FOUNDATION	NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORP.	MESA STUDENT HOUSING	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT
ASSETS					
Cash and cash equivalent investments	\$ 38	\$ 9	\$ 1,125	\$ 3,575	\$ 378
Receivables:					
Pledges receivable	9,474	-	-	9,973	-
Other receivables	243	299	2	436	-
Total receivables	9,717	299	2	10,409	-
Investments:					
Investments in securities	72,157	-	3,819	-	11,529
Investments held in trust for Universities	5,183	-	-	-	-
Other investments	1	-	-	-	-
Total investments	77,341	-	3,819	-	11,529
Net direct financing leases	-	49,180	-	-	-
Property and equipment, net of accumulated depreciation	74	-	13,330	1,416	-
Licenses	5,570	-	-	-	-
Other assets	1,919	3,071	1,162	159	28
Total Assets	94,659	52,559	19,438	15,559	11,935
LIABILITIES					
Liability under Universities' endowment trust agreements	5,845	-	-	-	-
Bonds payable	-	49,139	19,262	-	-
Unearned revenue	9,809	20	102	-	-
Other liabilities	1,140	1,725	1,359	2,356	5,015
Total Liabilities	16,794	50,884	20,723	2,356	5,015
NET ASSETS					
Permanently restricted	36,556	-	-	-	1,842
Temporarily restricted	22,844	-	-	12,975	257
Unrestricted (deficit)	18,465	1,675	(1,285)	228	4,821
Total Net Assets	\$ 77,865	\$ 1,675	\$ (1,285)	\$ 13,203	\$ 6,920

COLLEGIATE GOLF FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	DOWNTOWN PHOENIX STUDENT HOUSING	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	TOTAL
\$ 79	\$ 1,740	\$ 655	\$ 26	\$ 2,218	\$ 2,557	\$ 2,168	\$ 14,568
-	-	143	-	31,728	-	-	51,318
103	7,978	65	-	-	1,377	988	11,491
103	7,978	208	-	31,728	1,377	988	62,809
-	1,528	14,645	44,374	5,251	-	3,964	157,267
-	-	-	-	-	-	-	5,183
-	-	-	-	242	-	-	243
-	1,528	14,645	44,374	5,493	-	3,964	162,693
-	-	-	-	-	-	-	49,180
209	7,345	-	88,181	111	11,219	33	121,918
-	-	-	-	-	-	-	5,570
186	2,289	345	6,850	-	4,467	98	20,574
577	20,880	15,853	139,431	39,550	19,620	7,251	437,312
-	-	-	-	-	-	-	5,845
-	11,640	-	127,610	-	9,815	14	217,480
76	13,499	1,626	-	-	893	2,575	28,600
593	1,728	237	11,805	64	2,695	52	28,769
669	26,867	1,863	139,415	64	13,403	2,641	280,694
-	-	-	-	3,774	-	-	42,172
-	-	239	-	34,389	-	-	70,704
(92)	(5,987)	13,751	16	1,323	6,217	4,610	43,742
\$ (92)	\$ (5,987)	\$ 13,990	\$ 16	\$ 39,486	\$ 6,217	\$ 4,610	\$ 156,618

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	NORTHERN ARIZONA CAPITAL FACILITIES FINANCE CORP.	MESA STUDENT HOUSING	SUN ANGEL FOUNDATION	SUN ANGEL ENDOWMENT
REVENUES					
Contributions	\$ 11,224	\$ -	\$ -	\$ 18,190	\$ -
Rental revenue	-	11,149	6,189	-	-
Sales and services	-	-	59	676	-
Net investment income	(3,226)	1,812	169	94	(451)
Capital lease revenue	-	12,400	-	-	-
Licensing revenue	6,335	-	-	-	-
Other revenues	793	1,760	195	1,449	6
Total Revenues	15,126	27,121	6,612	20,409	(445)
EXPENSES					
Program services:					
Payments to Universities	-	-	-	10,061	-
Leasing related expenses	-	-	-	-	-
Payments on behalf of Universities	-	-	-	-	-
Other program services	5,318	-	-	-	5,000
Personal services, operations, and administrative expenses					
	408	2,346	3,748	1,139	134
Fundraising expenses	2,890	-	-	963	-
Interest	-	1,863	1,199	-	-
Assets expensed under capital lease agreement	-	23,990	-	-	-
Depreciation and amortization	-	43	651	-	-
Other expenses	-	1,011	108	70	-
Total Expenses	8,616	29,253	5,706	12,233	5,134
Increase (Decrease) in Net Assets	6,510	(2,132)	906	8,176	(5,579)
Net Assets - Beginning, as restated	71,355	3,807	(2,191)	5,027	12,499
Net Assets - Ending	\$ 77,865	\$ 1,675	\$ (1,285)	\$ 13,203	\$ 6,920

COLLEGIATE GOLF FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	DOWNTOWN PHOENIX STUDENT HOUSING	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	TOTAL
\$ -	\$ -	\$ 1,245	\$ -	\$ 7,275	\$ -	\$ 171	\$ 38,105
-	6,062	-	15	-	10,087	-	33,502
4,493	-	2,906	-	-	-	848	8,982
1	109	119	-	219	37	179	(938)
-	-	-	-	-	-	-	12,400
-	-	-	-	-	-	-	6,335
-	70	93	1	48	278	2,807	7,500
4,494	6,241	4,363	16	7,542	10,402	4,005	105,886
454	2,084	-	-	-	-	-	12,599
-	-	-	-	-	7,624	-	7,624
-	-	-	-	5,937	1,346	2,838	10,121
-	-	-	-	-	-	-	10,318
4,088	1,249	4,552	-	34	991	683	19,372
-	-	-	-	39	-	115	4,007
24	477	-	-	-	-	-	3,563
-	-	-	-	-	-	-	23,990
73	630	-	-	-	-	-	1,397
-	150	-	-	365	378	-	2,082
4,639	4,590	4,552	-	6,375	10,339	3,636	95,073
(145)	1,651	(189)	16	1,167	63	369	10,813
53	(7,638)	14,179	-	38,319	6,154	4,241	145,805
\$ (92)	\$ (5,987)	\$ 13,990	\$ 16	\$ 39,486	\$ 6,217	\$ 4,610	\$ 156,618



STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)

STATISTICAL SECTION

This part of the State of Arizona's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

Financial Trends – *Schedules 1 thru 4* contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

Revenue Capacity – *Schedules 5 thru 9* contain information to help the reader assess the State's most significant own-source revenues, the sales tax, and personal income tax.

Debt Capacity – *Schedules 10 thru 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 thru 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 ASSETS BY COMPONENT (1)
FOR THE LAST SEVEN FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Fiscal Year				
	2008	2007, as restated	2006, as restated	2005, as restated	2004, as restated
GOVERNMENTAL ACTIVITIES:					
Invested in capital assets, net of related debt (3)	\$ 14,530,867	\$ 13,500,218	\$ 12,878,151	\$ 11,825,961	\$ 11,226,325
Restricted for:					
Federal grants	53,212	40,737	63,219	102,794	73,466
Capital projects (4)	970,202	1,003,824	561,795	548,488	414,113
Debt service	36,496	38,804	44,846	28,708	31,302
Permanent funds:					
Expendable	69,305	21,290	19,244	5,106	-
Nonexpendable	3,523,725	3,467,467	2,785,419	2,164,200	1,550,247
Other purposes	334,425	161,917	86,345	88,992	31,447
Unrestricted	(1,105,246)	614,606	733,455	(463,515)	(684,492)
Total Governmental Activities Net Assets	\$ 18,412,986	\$ 18,848,863	\$ 17,172,474	\$ 14,300,734	\$ 12,642,408
BUSINESS-TYPE ACTIVITIES:					
Invested in capital assets, net of related debt	\$ 1,387,655	\$ 1,186,177	\$ 1,146,618	\$ 1,172,613	\$ 1,169,198
Restricted for:					
Capital projects	6,207	8,505	6,106	2,657	3,023
Unemployment compensation	1,072,996	1,075,038	949,919	820,383	796,119
Debt service	10,045	11,119	9,198	8,203	16,940
University funds:					
Expendable (5)	264,466	210,635	189,746	171,976	157,595
Nonexpendable (5)	153,383	199,471	178,001	163,922	153,073
Loans and other financial assistance (5)	74,115	71,211	67,423	64,875	63,500
Other purposes (5)	-	12	62	-	-
Unrestricted	188,354	295,377	179,524	84,248	115,986
Total Business-type Activities Net Assets	\$ 3,157,221	\$ 3,057,545	\$ 2,726,597	\$ 2,488,877	\$ 2,475,434
PRIMARY GOVERNMENT:					
Invested in capital assets, net of related debt	\$ 15,918,522	\$ 14,686,395	\$ 14,024,769	\$ 12,998,574	\$ 12,395,523
Restricted for:					
Federal grants	53,212	40,737	63,219	102,794	73,466
Capital projects	976,409	1,012,329	567,901	551,145	417,136
Unemployment compensation	1,072,996	1,075,038	949,919	820,383	796,119
Debt service	46,541	49,923	54,044	36,911	48,242
Permanent funds/University funds:					
Expendable (5)	333,771	231,925	208,990	177,082	157,595
Nonexpendable (5)	3,677,108	3,666,938	2,963,420	2,328,122	1,703,320
Loans and other financial assistance (5)	74,115	71,211	67,423	64,875	63,500
Other purposes (5)	334,425	161,929	86,407	88,992	31,447
Unrestricted	(916,892)	909,983	912,979	(379,267)	(568,506)
Total Primary Government Net Assets	\$ 21,570,207	\$ 21,906,408	\$ 19,899,071	\$ 16,789,611	\$ 15,117,842

(1) This schedule reports using the accrual basis of accounting.

(2) The State implemented GASB Statement 34 in fiscal year 2002. Therefore, ten years of data is not available, but will be accumulated over time.

(3) For fiscal year 2006, net assets for governmental activities were increased by the capitalization of \$302,375 of capital assets that were previously recorded as transportation expenses.

(4) For fiscal year 2007, the \$442,029 increase was primarily due to the transfer of \$245,000 of General Fund monies in order to accelerate the construction of certain critical projects on the State highway system, and \$185,000 in unspent bond proceeds related to highway construction.

(5) For fiscal year 2002, net assets restricted for expendable University funds of \$130,735 and for nonexpendable University funds of \$137,854 were classified as net assets restricted for loans and other financial assistance of \$175,661 and for other purposes of \$92,928.

Fiscal Year	
2003, as restated	2002, as restated (2)
\$ 10,690,782	\$ 10,043,985
108,268	158,424
495,663	589,996
30,470	51,861
20,082	56,697
1,395,750	1,243,389
21,080	24,132
(799,587)	358,806
<u>\$ 11,962,508</u>	<u>\$ 12,527,290</u>

\$ 1,153,428	\$ 1,165,306
21,842	33,515
893,470	1,055,543
24,715	30,153
143,683	-
141,281	-
63,249	258,954
2,763	95,146
251,415	277,195
<u>\$ 2,695,846</u>	<u>\$ 2,915,812</u>

\$ 11,844,210	\$ 11,209,291
108,268	158,424
517,505	623,511
893,470	1,055,543
55,185	82,014
163,765	56,697
1,537,031	1,243,389
63,249	258,954
23,843	119,278
(548,172)	636,001
<u>\$ 14,658,354</u>	<u>\$ 15,443,102</u>

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET ASSETS (1)
FOR THE LAST SEVEN FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Fiscal Year				
	2008	2007, as restated	2006, as restated	2005	2004, as restated
EXPENSES					
Governmental Activities:					
General government	\$ 982,382	\$ 802,659	\$ 781,542	\$ 646,452	\$ 726,525
Health and welfare	10,884,297	9,789,699	9,057,733	8,494,206	7,717,148
Inspection and regulation	185,996	175,609	159,766	149,238	138,281
Education	6,242,173	5,984,196	5,304,555	4,853,458	4,703,685
Protection and safety	1,510,615	1,401,513	1,279,129	1,171,340	1,059,047
Transportation (3)	670,173	583,304	386,777	589,966	731,522
Natural resources	250,258	193,862	187,947	184,538	162,366
Intergovernmental revenue sharing	3,023,836	2,864,543	2,658,636	2,335,828	2,144,438
Interest on long-term debt	179,795	191,674	172,439	182,852	176,035
Total Governmental Activities Expenses	<u>23,929,525</u>	<u>21,987,059</u>	<u>19,988,524</u>	<u>18,607,878</u>	<u>17,559,047</u>
Business-type Activities:					
Universities	3,227,481	2,960,790	2,762,557	2,540,193	2,355,418
Unemployment Compensation	356,333	248,111	226,171	292,127	397,657
Industrial Commission Special Fund (4)	14,824	23,669	(18,300)	106,295	167,331
Lottery	372,740	363,508	377,104	317,226	303,996
Other	162,300	176,486	136,894	120,629	109,944
Total Business-type Activities Expenses	<u>4,133,678</u>	<u>3,772,564</u>	<u>3,484,426</u>	<u>3,376,470</u>	<u>3,334,346</u>
Total Primary Government Expenses	<u>\$ 28,063,203</u>	<u>\$ 25,759,623</u>	<u>\$ 23,472,950</u>	<u>\$ 21,984,348</u>	<u>\$ 20,893,393</u>
PROGRAM REVENUES					
Governmental Activities:					
Charges for services:					
General government	\$ 190,374	\$ 200,495	\$ 161,664	\$ 139,486	\$ 140,791
Inspection and regulation	159,857	158,022	146,191	133,073	133,510
Transportation (5)	149,560	158,019	134,068	88,296	114,097
Other activities	318,776	281,796	279,836	256,804	248,446
Operating grants and contributions (6)	9,190,910	8,536,030	7,941,223	7,544,370	6,981,748
Capital grants and contributions	523,898	354,255	388,646	497,140	421,251
Total Governmental Activities Program Revenues	<u>10,533,375</u>	<u>9,688,617</u>	<u>9,051,628</u>	<u>8,659,169</u>	<u>8,039,843</u>
Business-type Activities:					
Charges for services:					
Universities	1,167,696	1,069,339	962,967	863,042	778,047
Lottery	472,937	462,200	468,697	397,561	366,582
Other activities (7)	485,242	518,922	474,801	440,646	305,221
Operating grants and contributions (8)	898,441	883,373	852,788	834,421	836,076
Capital grants and contributions	38,029	27,981	30,056	19,774	18,513
Total Business-type Activities Program Revenues	<u>3,062,345</u>	<u>2,961,815</u>	<u>2,789,309</u>	<u>2,555,444</u>	<u>2,304,439</u>
Total Primary Government Program Revenues	<u>\$ 13,595,720</u>	<u>\$ 12,650,432</u>	<u>\$ 11,840,937</u>	<u>\$ 11,214,613</u>	<u>\$ 10,344,282</u>
NET (EXPENSE) REVENUE					
Governmental activities	\$ (13,396,150)	\$ (12,298,442)	\$ (10,936,896)	\$ (9,948,709)	\$ (9,519,204)
Business-type activities	(1,071,333)	(810,749)	(695,117)	(821,026)	(1,029,907)
Total Primary Government Net (Expense)	<u>\$ (14,467,483)</u>	<u>\$ (13,109,191)</u>	<u>\$ (11,632,013)</u>	<u>\$ (10,769,735)</u>	<u>\$ (10,549,111)</u>

Fiscal Year	
2003, as restated	2002, as restated (2)
\$ 694,173	\$ 852,417
6,848,087	5,960,399
141,673	135,784
4,795,566	4,277,635
982,839	931,292
598,375	411,108
175,312	152,772
2,159,691	2,190,160
135,775	131,206
<u>16,531,491</u>	<u>15,042,773</u>
2,181,311	2,039,832
455,685	406,406
73,586	57,503
263,321	239,648
107,740	95,164
<u>3,081,643</u>	<u>2,838,553</u>
<u>\$ 19,613,134</u>	<u>\$ 17,881,326</u>
\$ 106,876	\$ 120,514
120,045	117,606
112,466	112,725
192,332	230,409
5,940,007	4,996,539
460,364	471,020
<u>6,932,090</u>	<u>6,048,813</u>
675,089	639,050
322,267	294,848
259,676	254,984
810,549	737,170
23,090	48,180
<u>2,090,671</u>	<u>1,974,232</u>
<u>\$ 9,022,761</u>	<u>\$ 8,023,045</u>
\$ (9,599,401)	\$ (8,993,960)
(990,972)	(864,321)
<u>\$ (10,590,373)</u>	<u>\$ (9,858,281)</u>

(Continued)

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET ASSETS (1)
FOR THE LAST SEVEN FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Fiscal Year				
	2008	2007, as restated	2006, as restated	2005	2004, as restated
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS					
Governmental Activities:					
Taxes:					
Sales	\$ 6,270,419	\$ 6,537,584	\$ 6,322,311	\$ 5,421,949	\$ 5,016,585
Income	4,205,426	4,636,447	4,548,843	3,562,916	2,800,461
Tobacco (9)	413,333	358,205	248,122	237,430	223,804
Property	36,732	43,736	43,035	46,148	50,455
Motor vehicle and fuel (5)	1,800,920	1,826,893	1,857,293	1,758,950	1,613,952
Other (9)	559,440	529,629	575,946	493,501	539,218
Unrestricted investment earnings (10)	243,160	243,328	172,311	106,362	24,227
Unrestricted grants and contributions	13,574	11,711	12,293	11,624	8,502
Miscellaneous general revenues (6)	214,751	212,253	235,610	387,269	281,109
Gain on sale of trust land	196,953	451,501	567,364	288,483	319,517
Transfers	(994,435)	(876,456)	(774,492)	(707,597)	(678,726)
Total Governmental Activities	12,960,273	13,974,831	13,808,636	11,607,035	10,199,104
Business-type Activities:					
Sales taxes	72,945	79,223	54,550	57,584	50,050
Unrestricted investment earnings	39,763	103,362	49,050	40,311	38,753
Unrestricted grants and contributions (8)	-	-	-	5	-
Miscellaneous general revenues (7)	64,564	77,841	58,816	26,017	46,615
Contributions to permanent endowments	3,927	4,815	3,803	2,955	2,231
Special items	(20,100)	-	(7,874)	-	(6,880)
Extraordinary items	15,475	-	-	-	-
Transfers	994,435	876,456	774,492	707,597	678,726
Total Business-type Activities	1,171,009	1,141,697	932,837	834,469	809,495
Total Primary Government	\$ 14,131,282	\$ 15,116,528	\$ 14,741,473	\$ 12,441,504	\$ 11,008,599
CHANGE IN NET ASSETS					
Governmental activities (3)	\$ (435,877)	\$ 1,676,389	\$ 2,871,740	\$ 1,658,326	\$ 679,900
Business-type activities	99,676	330,948	237,720	13,443	(220,412)
Total Primary Government	\$ (336,201)	\$ 2,007,337	\$ 3,109,460	\$ 1,671,769	\$ 459,488

- (1) This schedule reports using the accrual basis of accounting.
- (2) The State implemented GASB Statement 34 in fiscal year 2002. Therefore, ten years of data is not available, but will be accumulated over time.
- (3) For fiscal year 2006, net assets for governmental activities were increased by the capitalization of \$302,375 of capital assets that were previously recorded as transportation expenses.
- (4) The Industrial Commission Special Fund's cost of sales and benefits expense decreased \$125,828 during fiscal year 2006, primarily due to a decrease in insolvent carrier liabilities. During fiscal years 2005 and 2004, insolvent carrier liability increased, primarily as the result of \$67,423 and \$107,600, respectively, in Arizona workers' compensation claims from the defunct California domiciled Fremont Companies.
- (5) \$31,804 of transportation's charges for services for fiscal year 2005 were classified as motor vehicle and fuel tax revenues.
- (6) Beginning in fiscal year 2004, operating grants and contributions included Indian gaming revenue and tobacco settlement revenue. For fiscal year 2004, gaming revenue was \$57,517 and this was the first year that gaming revenue was earned, as a result of Proposition 202. For fiscal year 2004, tobacco settlement revenue was \$91,601. Prior to fiscal year 2004, tobacco settlement revenue was included in miscellaneous general revenues.
- (7) Beginning in fiscal year 2005, settlement income for the Industrial Commission Special Fund is classified as a program revenue, charges for services. Prior to this, it was classified as a miscellaneous general revenue. In fiscal year 2005, settlement income was \$41,554.
- (8) In fiscal year 2002, private gifts not restricted for capital purposes of \$83,100 for the Universities were classified as general revenues. In future fiscal years, these gifts are classified as program revenues.
- (9) Prior to fiscal year 2004, tobacco tax revenue was included in other tax revenue.
- (10) FY 07 Unrestricted investment earnings has been reduced by \$17,771 due to reclassifying the Greater Arizona Development Authority to a component unit from primary government.

Fiscal Year	
2003, as restated	2002, as restated (2)
\$ 4,551,804	\$ 4,450,691
2,371,005	2,442,320
-	-
37,470	49,611
1,563,876	1,493,259
632,896	544,514
77,914	116,614
7,222	8,518
319,873	186,917
137,563	137,565
(665,004)	(709,916)
<u>9,034,619</u>	<u>8,720,093</u>
43,450	41,367
32,527	29,327
3	83,108
26,985	12,447
3,037	2,723
-	-
-	-
665,004	709,916
<u>771,006</u>	<u>878,888</u>
<u>\$ 9,805,625</u>	<u>\$ 9,598,981</u>
\$ (564,782)	\$ (273,867)
(219,966)	14,567
<u>\$ (784,748)</u>	<u>\$ (259,300)</u>

STATE OF ARIZONA
SCHEDULE 3
FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST SEVEN FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Fiscal Year				
	2008	2007, as restated	2006	2005	2004
GENERAL FUND:					
Reserved for:					
Budget stabilization fund	\$ 147,212	\$ 673,531	\$ 651,020	\$ 160,873	\$ 13,545
School facilities improvements	1,914	4,931	110,149	107,260	96,714
Continuing appropriations	103,320	162,657	69,861	55,727	74,973
Other fund balance reservations	262	272	302	374	377
Unreserved	108,914	1,081,708	1,434,806	986,168	561,029
Total General Fund	\$ 361,622	\$ 1,923,099	\$ 2,266,138	\$ 1,310,402	\$ 746,638
ALL OTHER GOVERNMENTAL FUNDS:					
Reserved for:					
Highway construction	\$ 1,253,202	\$ 976,488	\$ 426,015	\$ 419,072	\$ 321,401
Other construction	238,985	5,288	6,256	7,307	41,165
School facilities improvements	-	-	-	5,386	17,808
Permanent funds	2,544,365	2,454,564	2,043,591	1,716,404	1,361,366
Continuing appropriations	143,785	94,602	118,671	120,752	114,948
Debt service	35,236	34,421	37,792	21,992	27,693
Other fund balance reservations	27,132	17,702	5,145	25,375	25,138
Unreserved, reported in:					
Special revenue funds	919,679	793,890	657,371	574,938	463,738
Capital projects funds	-	-	-	-	-
Total All Other Governmental Funds	\$ 5,162,384	\$ 4,376,955	\$ 3,294,841	\$ 2,891,226	\$ 2,373,257

(1) This schedule reports using the modified accrual basis of accounting.

(2) Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the fund balance information is available only beginning in fiscal year 2002.

Fiscal Year	
2003	2002, as restated (2)
\$ 13,737	\$ 67,700
101,944	-
87,131	105,816
598	611
343,012	574,146
<u>\$ 546,422</u>	<u>\$ 748,273</u>

\$ 342,324	\$ 277,321
33,477	53,088
33,893	262,654
1,123,523	1,082,018
90,238	103,312
23,273	61,123
38,945	38,382
444,301	634,710
-	29,661
<u>\$ 2,129,974</u>	<u>\$ 2,542,269</u>

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST SEVEN FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Fiscal Year				
	2008	2007, as restated	2006	2005	2004
REVENUES					
Taxes:					
Sales	\$ 6,278,181	\$ 6,527,968	\$ 6,313,090	\$ 5,410,383	\$ 4,985,424
Income	4,174,966	4,629,220	4,535,492	3,528,565	2,818,778
Tobacco (3)	413,333	358,205	248,122	237,430	223,804
Property	36,732	43,736	43,035	46,148	50,455
Motor vehicle and fuel	1,802,572	1,828,701	1,857,293	1,758,950	1,613,952
Other (3)	559,440	529,629	575,946	493,501	539,218
Intergovernmental	9,499,419	8,313,720	8,019,509	7,714,012	7,159,976
Licenses, fees, and permits	447,090	442,236	410,069	335,760	349,938
Earnings on investments (4,8)	135,879	510,253	247,250	190,499	131,715
Sales and charges for services	167,329	158,318	162,048	154,251	161,170
Fines, forfeitures, and penalties	167,309	183,923	138,354	121,123	120,032
Gaming (5)	94,004	94,771	84,794	67,658	57,517
Tobacco settlement (6)	115,587	90,258	86,231	93,933	92,550
Other (6)	263,443	264,440	269,411	430,097	313,220
Total Revenues	<u>24,155,284</u>	<u>23,975,378</u>	<u>22,990,644</u>	<u>20,582,310</u>	<u>18,617,749</u>
EXPENDITURES					
Current:					
General government	966,512	879,519	861,373	758,149	718,229
Health and welfare	10,874,581	9,679,226	8,995,430	8,419,913	7,733,516
Inspection and regulation	184,451	173,897	157,401	146,523	136,189
Education	6,240,862	5,983,513	5,302,942	4,852,099	4,702,609
Protection and safety	1,447,372	1,358,439	1,247,508	1,132,473	1,028,134
Transportation (7)	630,283	524,318	373,603	564,574	717,463
Natural resources	242,893	185,592	178,832	175,593	153,533
Intergovernmental revenue sharing	3,026,563	2,863,218	2,661,894	2,335,828	2,144,438
Debt service:					
Principal	261,228	220,473	261,277	381,512	327,595
Interest and other fiscal charges	210,856	195,317	176,933	200,731	188,247
Capital outlay (7)	1,106,951	992,000	1,066,815	710,688	695,289
Total Expenditures	<u>25,192,552</u>	<u>23,055,512</u>	<u>21,284,008</u>	<u>19,678,083</u>	<u>18,545,242</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,037,268)</u>	<u>919,866</u>	<u>1,706,636</u>	<u>904,227</u>	<u>72,507</u>

Fiscal Year	
2003	2002, as restated (2)
\$ 4,555,389	\$ 4,424,528
2,387,369	2,410,342
-	-
37,470	49,611
1,563,876	1,493,259
632,896	543,055
6,141,218	5,182,770
320,564	330,041
111,771	136,761
111,438	157,912
96,192	98,791
-	-
-	-
337,930	324,433
<u>16,296,113</u>	<u>15,151,503</u>

689,603	511,167
6,652,661	5,788,774
139,863	133,584
4,882,516	4,188,501
925,667	892,986
463,756	401,372
163,946	140,600
2,159,691	2,190,211
297,508	270,912
140,613	125,594
1,041,038	1,127,411
<u>17,556,862</u>	<u>15,771,112</u>
<u>(1,260,749)</u>	<u>(619,609)</u>

(Continued)

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST SEVEN FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Fiscal Year				
	2008	2007, as restated	2006	2005	2004
OTHER FINANCING SOURCES (USES)					
Transfers in	897,771	910,605	812,083	1,011,456	940,050
Transfers out	(1,874,084)	(1,784,833)	(1,585,754)	(1,714,562)	(1,616,105)
Proceeds from sale of trust land	249,970	199,089	284,293	274,127	149,001
Proceeds from sale of capital assets	28,233	10,162	11,118	-	-
Capital lease and installment purchase contracts	23,556	132,985	3,543	5,350	24,349
Proceeds from notes and loans	19,529	-	-	-	-
Refunding bonds issued	82,880	-	596,160	224,283	107,940
Payment to refunded bond escrow agent	(86,547)	-	(646,689)	(247,417)	(145,965)
Bonds issued	563,950	325,000	118,250	210,577	389,746
Refunding grant anticipation notes issued	-	-	-	-	22,633
Grant anticipation notes issued	68,000	-	-	104,385	177,322
Refunding certificates of participation issued	-	-	-	334,225	16,725
Payment to refunded certificates of participation escrow agent	-	-	-	(363,052)	(17,273)
Certificates of participation issued	238,990	-	-	237,625	273,735
Premium on debt issued	48,972	26,201	59,711	100,509	48,834
Total Other Financing Sources (Uses)	<u>261,220</u>	<u>(180,791)</u>	<u>(347,285)</u>	<u>177,506</u>	<u>370,992</u>
NET CHANGE IN FUND BALANCES	<u>\$ (776,048)</u>	<u>\$ 739,075</u>	<u>\$ 1,359,351</u>	<u>\$ 1,081,733</u>	<u>\$ 443,499</u>

**DEBT SERVICE AS A PERCENTAGE OF
NONCAPITAL EXPENDITURES**

2.0%	1.9%	2.2%	3.1%	2.9%
------	------	------	------	------

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Due to changes in the State's fund structure initiated when GASB Statement 34 was implemented, the changes in fund balance information is available only beginning in fiscal year 2002.
- (3) Prior to fiscal year 2004, tobacco tax revenue was included in other tax revenue.
Increase from fiscal year 2006 to fiscal year 2007 primarily due to Proposition 203, implemented December, 2006.
- (4) Increase from fiscal year 2006 to fiscal year 2007 primarily due to increase in Land Endowment fair market value of investments, larger cash balances available to invest, and market interest rates.
- (5) Beginning in fiscal year 2004, Indian gaming revenue was earned as a result of Proposition 202.
- (6) Prior to fiscal year 2004, tobacco settlement revenue was included in other revenue.
- (7) For fiscal year 2006, transportation expenditures were reduced and capital outlay was increased by \$302,375 for addition of capital assets that were previously recorded as transportation expenditures.
- (8) 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.

Fiscal Year	
2003	2002, as restated (2)
1,053,862	848,252
(1,690,443)	(1,549,833)
88,066	51,265
-	-
101,473	4,167
-	-
90,530	74,250
(107,735)	(77,135)
662,975	148,350
-	-
-	-
75,295	71,051
(80,713)	(65,087)
372,730	68,203
80,563	14,816
<u>646,603</u>	<u>(411,701)</u>
<u>\$ (614,146)</u>	<u>\$ (1,031,310)</u>
2.7%	2.7%

STATE OF ARIZONA
SCHEDULE 5
NET TAXABLE SALES BY CLASSIFICATION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

CLASSIFICATION (9)	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Transporting (2)	\$ 48,713	\$ 43,351	\$ 59,801	\$ 53,371	\$ 67,486	\$ 26,106
Mining, oil and gas	216,675	255,531	321,538	317,202	287,787	268,073
Mining severance	1,752,522	1,743,361	1,219,984	656,631	261,623	45,049
Timber severance (3)	-	-	-	-	-	-
Utilities	9,237,779	8,609,034	7,679,982	6,828,179	6,430,306	5,940,826
Communications	3,669,683	3,513,667	3,220,062	2,934,858	2,809,508	2,869,499
Private car and pipelines	16,021	19,679	25,751	14,832	15,920	12,493
Publishing	122,652	129,681	133,680	134,925	128,911	133,229
Job printing	391,038	397,802	403,686	367,010	348,924	427,730
Local advertising (4)	-	-	-	-	-	-
Restaurants and bars	9,663,959	9,619,785	8,933,459	7,939,964	7,202,034	6,655,028
Amusements	1,146,344	1,086,364	998,767	872,520	813,489	782,670
Commercial lease (5)	(443)	(2)	(120)	919	(6,518)	(7,579)
Personal property rentals	3,995,697	3,927,824	3,633,374	3,242,363	3,174,945	3,319,778
Contracting	20,156,299	22,415,051	20,487,917	16,044,847	13,156,490	11,563,726
Feed wholesale (6)	-	-	-	-	(8)	(67)
Retail	52,626,993	55,009,403	53,147,971	46,378,344	42,409,055	39,408,769
Hotel/motel	2,405,705	2,411,634	2,268,776	2,063,973	1,831,153	1,698,499
Rental occupancy tax	(2,669)	1,065	3,471	2,414	4,202	1,428
Use tax	6,837,880	6,091,507	6,155,959	5,218,535	4,644,319	3,793,691
Use tax-utilities (10)	12,461	12,154	16,582	234	127	-
Membership camping	52	12	2,785	2,897	2,998	2,406
Agriculture equipment (7)	-	-	-	-	-	-
Other	-	-	-	-	119	-
Total	\$ 112,297,361	\$ 115,286,903	\$ 108,713,425	\$ 93,074,018	\$ 83,582,870	\$ 76,941,354
Direct sales tax rate (8)	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%

N/A = Not available

- (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) Effective July 13, 1995, the tax rate on timber severance was changed to a dollar amount per 1,000 board feet. Timber severance includes only sales subject to the repealed rate.
- (4) Local advertising was phased out on January 1, 1986.
- (5) Commercial lease rate dropped to 0% effective July 1, 1997.
- (6) Feed wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.
- (7) Agriculture equipment was phased out on July 1, 1988 and is not a current business classification.
- (8) A significant portion of the revenue base was subject to a sales tax rate of 5.6% for fiscal years 2002 thru 2008 and 5.0% for most of fiscal year 2001 (rate increased to 5.6% during fiscal year 2001 on June 1, 2001). For fiscal years 2000 thru 2008, the tax rate for non-metal mining, oil and gas was 3.125%, the mining severance was 2.5%, the timbering severance for ponderosa and other was \$2.13 and \$1.51 per thousand board feet, respectively, the hotel/motel tax was 5.5%, the rental occupancy tax was 3.0%, and the jet fuel and jet fuel use tax was \$.0305 per gallon. Tax rates for fiscal years 1997 thru 1999 are not available. 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.
- (9) 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.
- (10) Use Tax-Utilities was not reported prior to fiscal year 2008. Fiscal years 2004-2008 were reported in fiscal year 2008. Information prior to 2004 is not available.

Source: Arizona Department of Revenue Annual Report for fiscal years 2008 and prior.
June 2008 Tax Facts report from Department of Revenue web site for fiscal year 2008.

Fiscal Year

	2002	2001	2000	1999
\$	96,356	\$ 138,656	\$ 89,506	\$ 94,360
	208,310	224,834	193,934	204,731
	(4,264)	168,695	481,583	749,257
	766	-	-	-
	5,919,273	5,814,282	5,268,208	5,066,644
	2,945,681	2,870,089	2,453,094	2,153,028
	7,134	15,486	5,612	15,556
	82,843	124,462	112,358	119,042
	351,142	402,934	418,678	418,740
	-	-	27	(2)
	6,428,712	6,300,820	5,976,371	5,476,713
	743,800	760,838	758,823	680,141
	36,913	182,691	659,199	(133,064)
	3,607,519	3,658,549	3,412,996	3,170,338
	11,820,597	11,250,538	10,847,157	10,021,561
	(1,806)	(42)	382	270
	38,432,860	38,282,337	36,403,862	32,964,475
	1,659,761	1,871,009	1,818,474	1,679,515
	5,968	4,897	3,734	3,931
	3,240,460	3,922,953	3,514,613	2,951,224
	-	-	-	-
	2,741	2,420	1,411	1,682
	2,107	1,213	-	-
	-	-	-	-
\$	75,586,873	\$ 75,997,661	\$ 72,420,022	\$ 65,638,142
	5.60%	5.00%	5.00%	N/A

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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 2008		Fiscal Year 1999	
	Tax Collections (4)	Percentage of Total	Tax Collections (5)	Percentage of Total
Transporting (1)	\$ 2,418	0.04 %	\$ 2,915	0.09 %
Non-metal mining, oil and gas	6,761	0.11	6,398	0.20
Mining severance	43,752	0.70	18,731	0.57
Timbering severance - ponderosa (2)	-	-	36	-
Timbering severance - other (2)	5	-	4	-
Utilities	461,455	7.41	253,332	7.72
Communications	183,289	2.95	107,651	3.28
Railroads and aircraft (1)	-	-	1,803	0.05
Private car and pipelines	800	0.01	778	0.02
Publishing	6,125	0.10	5,952	0.18
Printing	19,528	0.31	20,937	0.64
Restaurants and bars	482,664	7.76	273,834	8.35
Amusements	57,247	0.92	34,007	1.04
Commercial lease (3)	(17)	-	(205)	(0.01)
Personal property rentals	199,569	3.21	158,517	4.83
Contracting	1,006,520	16.17	501,075	15.28
Feed wholesale (4)	-	-	1	-
Retail	2,628,261	42.23	1,648,224	50.27
Hotel/motel	132,163	2.12	92,371	2.82
Rental occupancy tax (2)	(80)	-	118	-
Use tax utilities	623	0.01	-	-
Use tax	340,535	5.47	147,581	4.50
License fees	562	0.01	512	0.02
Membership camping	3	-	84	-
Jet fuel tax	4,636	0.07	4,940	0.15
Jet fuel use tax	1,045	0.02	462	0.01
Non sufficient funds	(2)	-	48	-
Telecommunications service assistance	(245)	-	(205)	(0.01)
Education tax (5)	645,828	10.38	-	-
Total (6)	\$ 6,223,445	100.00 %	\$ 3,279,901	100.00 %

- (1) Transporting/towing was combined with railroads/aircraft for confidentiality purposes beginning in fiscal year 2004.
- (2) Effective November 1, 2006 these rates were repealed.
- (3) Commercial lease rate dropped to 0% effective July 17, 1997.
- (4) Feed wholesale dropped to 0% effective July 17, 1994 and was repealed effective October 1, 1994.
- (5) The education tax is .6% of net taxable sales for most classifications. The ones that do not collect the education tax are nonmetal 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.
- (6) Does not reflect the balance of undistributed estimated payments of \$11,669 at the end of fiscal year 1999.

Source: Arizona Department of Revenue Annual Report.

STATE OF ARIZONA
SCHEDULE 7
PERSONAL INCOME BY INDUSTRY
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

CLASSIFICATION	Calendar Year Ended December 31					
	2007	2006	2005	2004	2003	2002
Farm earnings	\$ 758,330	\$ 571,741	\$ 759,997	\$ 859,148	\$ 787,442	\$ 1,074,253
Forestry and fishing	468,100	469,099	440,196	430,376	423,639	414,395
Mining	1,151,084	973,148	799,197	726,869	630,976	625,716
Utilities	1,386,898	1,242,240	1,172,403	1,096,779	1,021,086	985,572
Construction	13,670,298	14,613,678	12,724,207	10,680,111	9,545,774	9,259,202
Manufacturing	14,429,720	14,406,620	13,145,617	12,753,728	11,984,368	11,928,999
Wholesale trade	8,514,211	7,854,844	7,162,541	6,552,784	5,924,358	5,780,936
Retail trade	12,557,877	12,301,679	11,325,210	10,120,398	9,487,641	8,981,149
Transportation and warehousing	4,694,417	4,521,440	4,198,693	3,949,391	3,472,974	3,370,047
Information	3,198,099	3,198,146	2,997,957	2,995,527	2,949,292	3,002,940
Finance and insurance	10,383,536	10,350,206	9,530,330	8,293,994	7,715,318	7,059,253
Real estate, rental, and leasing	5,061,948	5,589,695	5,533,180	4,893,979	4,097,630	3,878,051
Professional and technical services	12,762,689	12,064,475	10,780,506	9,276,345	8,387,301	8,368,781
Managing companies/enterprises	2,389,516	1,988,519	1,698,728	1,825,523	1,468,659	1,326,944
Administrative and waste services	9,018,771	8,668,544	7,838,454	6,800,652	6,169,723	5,824,505
Educational services	1,717,733	1,587,732	1,491,624	1,339,831	1,096,995	969,590
Health care and social assistance	15,484,491	14,322,080	12,891,901	11,731,602	10,612,440	9,712,814
Arts, entertainment, and recreation	1,619,828	1,573,257	1,387,346	1,321,892	1,272,431	1,288,587
Accommodation and food services	5,464,354	5,060,881	4,666,250	4,247,477	3,875,538	3,664,219
Other services, except public administration	4,028,434	3,828,085	3,524,773	3,263,960	3,100,185	3,015,205
Government and government enterprises	25,891,129	24,316,909	22,796,583	21,175,536	19,685,814	18,321,256
Other (1)	53,951,703	49,962,132	45,667,456	40,586,709	36,872,729	35,297,873
Total	\$ 208,603,166	\$ 199,465,150	\$ 182,533,149	\$ 164,922,611	\$ 150,582,313	\$ 144,150,287
Average effective rate (2)	1.64%	1.84%	2.00%	1.73%	1.54%	1.46%

- (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 2004 through 2006 were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.

Source: Arizona Department of Revenue Annual Report and the U.S. Bureau of Economic Analysis.

Calendar Year Ended December 31

	2001	2000	1999	1998
\$	835,578	\$ 684,054	\$ 925,960	\$ 871,124
	436,315	380,894	378,954	361,450
	695,290	705,517	794,728	818,430
	921,738	828,466	779,816	725,958
	8,931,571	8,568,315	7,558,776	6,527,894
	12,340,155	12,727,071	11,218,882	11,065,815
	5,777,683	5,565,928	4,998,428	4,509,740
	8,689,514	8,260,397	7,528,294	6,990,221
	3,310,838	3,158,729	2,949,668	2,686,803
	3,045,121	3,155,092	2,571,155	2,141,810
	6,732,336	6,245,588	5,491,049	5,060,138
	3,536,667	3,484,281	3,402,939	2,650,800
	8,422,829	7,971,913	6,815,267	6,266,015
	1,337,701	1,162,843	1,055,653	1,041,441
	5,757,981	5,540,650	4,856,712	4,131,402
	789,291	743,767	642,796	609,346
	8,903,971	8,422,567	7,722,022	7,257,866
	1,244,280	1,145,902	1,021,478	925,328
	3,552,018	3,450,140	3,208,462	3,121,756
	2,883,219	2,767,102	2,528,002	2,514,591
	16,941,093	15,663,994	14,655,470	13,865,192
	33,768,611	31,924,649	29,752,614	29,227,104
\$	<u>138,853,800</u>	<u>\$ 132,557,859</u>	<u>\$ 120,857,125</u>	<u>\$ 113,370,224</u>
	1.51%	1.74%	1.90%	1.85%

STATE OF ARIZONA
SCHEDULE 8
PERSONAL INCOME TAX RATES
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2007	2006	2005	2004	2003
<u>AVERAGE EFFECTIVE RATE (3)</u>					
Personal Income Tax Revenue (1)	\$ 3,414,304	\$ 3,666,923	\$ 3,651,576	\$ 2,854,009	\$ 2,316,040
Personal Income (2)	\$ 208,603,166	\$ 199,465,150	\$ 182,533,149	\$ 164,922,611	\$ 150,582,313
Average Effective Rate (3)	1.64%	1.84%	2.00%	1.73%	1.54%
<u>TAX RATES ON THE PORTION OF TAXABLE INCOME IN RANGES (4)</u>					
\$0 - \$10	2.59%	2.73%	2.87%	2.87%	2.87%
\$10 - \$25	2.88%	3.04%	3.20%	3.20%	3.20%
\$25 - \$50	3.36%	3.55%	3.74%	3.74%	3.74%
\$50 - \$150	4.24%	4.48%	4.72%	4.72%	4.72%
\$150 and over	4.54%	4.79%	5.04%	5.04%	5.04%

- (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.
(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 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 2005 AND 1998 (1)
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2005			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u>				
\$50 and under	1,679,552	68.61%	\$ 473,941	13.40%
\$50 - \$100	509,349	20.81%	709,542	20.07%
\$100 - \$500	242,518	9.91%	1,148,106	32.47%
\$500 and over	16,366	0.67%	1,204,255	34.06%
Total	2,447,785	100.00%	\$ 3,535,844	100.00%

- (1) The taxable year 2005 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 2005, filed from January 2006 forward (or 1998, filed from January 1999 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 Report.

Calendar Year Ended December 31

2002	2001	2000	1999	1998
\$ 2,104,362	\$ 2,090,646	\$ 2,303,888	\$ 2,291,883	\$ 2,098,349
\$ 144,150,287	\$ 138,853,800	\$ 132,557,859	\$ 120,857,125	\$ 113,370,224
1.46%	1.51%	1.74%	1.90%	1.85%
2.87%	2.87%	2.87%	2.87%	2.88%
3.20%	3.20%	3.20%	3.20%	3.24%
3.74%	3.74%	3.74%	3.74%	3.82%
4.72%	4.72%	4.72%	4.72%	4.74%
5.04%	5.04%	5.04%	5.04%	5.10%

Taxable Year Ended December 31, 1998

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,465,037	75.40%	\$ 430,781	22.08%
355,356	18.29%	512,479	26.27%
115,669	5.95%	559,603	28.69%
6,986	0.36%	447,876	22.96%
<u>1,943,048</u>	<u>100.00%</u>	<u>\$ 1,950,739</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, 2008
(Expressed in Thousands)

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
GOVERNMENTAL ACTIVITIES:						
Revenue bonds	\$ 2,759,070	\$ 2,328,840	\$ 2,106,700	\$ 2,170,845	\$ 2,278,225	\$ 2,173,055
Grant anticipation notes	298,280	282,860	325,430	363,970	308,585	169,145
Certificates of participation	1,135,640	959,865	1,020,810	1,054,677	845,804	582,511
Capital leases	249,876	242,209	129,808	126,676	125,974	104,644
Installment purchase contracts	8,908	10,644	6,815	6,926	4,602	6,188
Notes payable	22,838	3,309	-	-	562	10,301
Premiums and discounts on debt	242,816	225,071	219,958	197,479	144,759	108,732
Deferred amount on refundings (2)	(13,145)	(14,266)	(17,832)	-	-	-
Total Governmental Activities	<u>4,704,283</u>	<u>4,038,532</u>	<u>3,791,689</u>	<u>3,920,573</u>	<u>3,708,511</u>	<u>3,154,576</u>
BUSINESS-TYPE ACTIVITIES:						
Revenue bonds	902,255	868,565	802,600	768,000	756,781	597,238
Certificates of participation	903,843	935,127	946,766	860,759	641,315	429,144
Capital leases	179,052	166,780	113,388	120,361	80,338	31,923
Installment purchase contracts	13,024	9,544	10,279	7,276	5,038	3,823
Notes payable	1,022	1,354	-	30	80	129
Premiums and discounts on debt	38,211	39,582	38,331	36,133	28,184	21,686
Deferred amount on refundings (2)	(27,711)	(29,211)	(21,606)	(20,821)	(10,970)	(11,305)
Total Business-type Activities	<u>2,009,696</u>	<u>1,991,741</u>	<u>1,889,758</u>	<u>1,771,738</u>	<u>1,500,766</u>	<u>1,072,638</u>
Total Primary Government	<u>\$ 6,713,979</u>	<u>\$ 6,030,273</u>	<u>\$ 5,681,447</u>	<u>\$ 5,692,311</u>	<u>\$ 5,209,277</u>	<u>\$ 4,227,214</u>
Debt as a Percentage of						
Personal Income (3)	3.2%	3.0%	3.1%	3.5%	3.5%	2.9%
Amount of Debt per Capita (3)						
	\$ 1,057	\$ 976	\$ 953	\$ 990	\$ 933	\$ 776

Note: Details regarding the State's outstanding debt can be found in the notes to the financial statements.

- (1) The State of Arizona implemented GASB 34 in fiscal year 2002.
- (2) For fiscal years 2001 and prior, some or all of the premiums, discounts, or deferred amounts on refundings are combined in the respective revenue bond, grant anticipation note, or certificate of participation line items.
- (3) 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 2008 contains data for the calendar year ending December 31, 2007.

Fiscal Year

	2002, as restated (1)	2001, as restated (2)	2000 (2)	1999 (2)
\$	1,782,510	\$ 1,882,765	\$ 1,337,108	\$ 1,257,492
	182,295	182,295	-	-
	231,904	186,447	201,639	215,989
	8,517	9,390	21,115	10,317
	10,228	9,767	6,415	11,917
	38,859	-	-	-
	32,700	19,766	-	-
	-	-	-	-
	<u>2,287,013</u>	<u>2,290,430</u>	<u>1,566,277</u>	<u>1,495,715</u>
	596,403	540,019	567,659	559,109
	422,010	244,934	191,899	110,884
	37,758	29,259	12,525	4,931
	3,832	1,634	9,835	2,156
	-	-	-	-
	20,794	-	-	-
	(8,999)	-	-	-
	<u>1,071,798</u>	<u>815,846</u>	<u>781,918</u>	<u>677,080</u>
\$	<u><u>3,358,811</u></u>	<u><u>\$ 3,106,276</u></u>	<u><u>\$ 2,348,195</u></u>	<u><u>\$ 2,172,795</u></u>
	2.4%	2.3%	1.9%	1.9%
\$	633	\$ 601	\$ 467	\$ 445

STATE OF ARIZONA
SCHEDULE 11
LEGAL DEBT MARGIN INFORMATION
ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	Total Principal Outstanding Debt Limit (1)			Highest Annual Principal and Interest Payment Debt Limit (1), (2)				
	Debt Limit	Total Principal Applicable to Limit	Legal Debt Margin	Total Principal Applicable to the Limit as a Percentage of Debt Limit	(3) Debt Limit	Highest Annual Principal and Interest Payment	Legal Debt Margin	Highest Annual Principal and Interest Payment as a Percentage of Debt Limit
2008	\$ -	\$ 1,623,905	\$ -	- %	\$ 219,539	\$ 146,754	\$ 72,785	66.85 %
2007	-	1,490,600	-	-	317,570	137,149	180,421	43.19
2006	1,300,000	1,223,425	76,575	94.11	312,204	121,025	191,179	38.76
2005	1,300,000	1,161,355	138,645	89.34	230,882	115,633	115,249	50.08
2004	1,300,000	1,017,360	282,640	78.26	278,927	106,220	172,707	38.08
2003	1,300,000	932,700	367,300	71.75	270,270	99,923	170,347	36.97
2002	1,000,000	734,155	265,845	73.42	261,663	86,496	175,167	33.06
2001	800,000	700,280	99,720	87.54	256,945	82,712	174,233	32.19
2000	800,000	608,500	191,500	76.06	264,361	N/A	N/A	N/A
1999	800,000	524,345	275,655	65.54	254,968	N/A	N/A	N/A

- (1) As stated in House Bill 2206 of the Second Regular Session of the Forty-seventh Legislature, the \$1.3 billion debt limit is eliminated from ARS §28-7510 and the amount that pledged monies are required to exceed the highest annual principal and interest payments is amended from two to three times. The general effective date of this change was September 21, 2006. Prior to September 21, 2006, Arizona Revised Statutes restricted the total principal amount of Arizona Highway Revenue Bonds that could be outstanding at any time, excluding refunded bonds, from exceeding \$1.3 billion. Also, the monies subjected to pledge for the preceding twelve months must have exceeded, by two times, the highest annual principal and interest payments on all of the outstanding Arizona Highway Revenue Bonds for the highest one year period during the life of the outstanding bonds.
- (2) For fiscal years 1999 to 2000, information for calculating the legal debt margin information for the highest annual principal and interest payment limit is unavailable.
- (3) The Highest Annual Principal and Interest Payment debt limit is calculated by dividing pledged revenues for the Arizona Transportation Board Highway Revenue Bonds (see Schedule 15) by three. Fiscal year 2005 pledged revenues are net of a \$118,000 distribution to the State General Fund.

STATE OF ARIZONA
SCHEDULE 12
LEGAL DEBT MARGIN INFORMATION (1), (2)
ARIZONA STATE UNIVERSITY
FOR THE LAST THREE FISCAL YEARS (3)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2008	\$ 2,017,544	\$ 161,404	\$ 115,000	\$ 46,404	5.70 %
2007	1,880,769	150,462	97,800	52,662	5.20 %
2006	1,724,528	137,962	91,400	46,562	5.30 %

- (1) Ten years of data is not available, but will be accumulated over time.
- (2) For fiscal years 2006, 2007, and 2008, projections are based upon the University's fiscal years 2008-2010, 2009-2011, and 2010-2012 capital improvement plans, respectively.
- (3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA
SCHEDULE 13
LEGAL DEBT MARGIN INFORMATION
UNIVERSITY OF ARIZONA
FOR THE LAST TWO FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2008	\$ 1,681,132	\$ 134,491	\$ 89,100	\$ 45,391	5.30 %
2007	1,657,971	132,638	114,400	18,238	6.90

- (1) Ten years of data is not available, but will be accumulated over time.
- (2) For fiscal years 2007 and 2008, projections are based upon the University's fiscal years 2009-2011 and 2010-2012 capital improvement plans.
- (3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA
SCHEDULE 14
LEGAL DEBT MARGIN INFORMATION
NORTHERN ARIZONA UNIVERSITY
FOR THE LAST TWO FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year (2)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (3)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2008	\$ 430,360	\$ 34,429	\$ 27,500	\$ 6,929	6.39 %
2007	410,811	32,865	30,400	2,465	7.40

- (1) Ten years of data is not available, but will be accumulated over time.
- (2) For fiscal years 2007 and 2008, projections are based upon the University's fiscal years 2009-2011 and 2010-2012 capital improvement plans.
- (3) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA
SCHEDULE 15
PLEDGED-REVENUE COVERAGE
ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(1), (2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2008	\$ 658,616	\$ 60,645	\$ 75,538	\$ 136,183	4.8
2007	635,140	57,825	73,785	131,610	4.8
2006	624,408	54,830	62,222	117,052	5.3
2005	461,763	44,265	60,459	104,724	4.4
2004	557,854	51,155	53,149	104,304	5.3
2003	540,540	44,490	41,932	86,422	6.3
2002	523,326	45,365	38,534	83,899	6.2
2001	513,890	52,055	36,581	88,636	5.8
2000	528,721	46,270	33,994	80,264	6.6
1999	509,935	43,805	31,090	74,895	6.8

(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 2005 is net of a \$118,000 distribution to the State General Fund.

STATE OF ARIZONA
SCHEDULE 16
PLEDGED-REVENUE COVERAGE
ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2008	\$ 253,742	\$ 19,045	\$ 10,673	\$ 29,718	8.5
2007	262,264	-	-	-	N/A
2006	316,491	80,375	1,566	81,941	3.9
2005	316,806	208,625	14,318	222,943	1.4
2004	288,600	199,400	23,553	222,953	1.3
2003	268,721	190,415	31,533	221,948	1.2
2002	267,563	163,455	35,445	198,900	1.3
2001	264,722	156,865	40,035	196,900	1.3
2000	248,596	128,805	42,609	171,414	1.5
1999	229,470	106,765	43,251	150,016	1.5

(1) The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

STATE OF ARIZONA
SCHEDULE 17
PLEDGED-REVENUE COVERAGE
SCHOOL FACILITIES BOARD STATE SCHOOL IMPROVEMENT REVENUE BONDS
FOR THE LAST SEVEN FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(2)	(3)			Coverage
	Pledged Revenue	Debt Service			
		Principal	Interest	Total	
2008	\$ 645,828	\$ 33,810	\$ 30,498	\$ 64,308	10.04
2007	666,184	31,055	31,893	62,948	10.58
2006	628,471	34,480	30,052	64,532	9.74
2005	538,346	28,485	36,060	64,545	8.34
2004	487,215	27,215	37,568	64,783	7.52
2003	447,841	25,010	36,901	61,911	7.23
2002	439,005	43,035	26,962	69,997	6.27

- (1) No debt service payments were due prior to fiscal year 2002.
- (2) 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.
- (3) 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.

STATE OF ARIZONA
SCHEDULE 18
PLEDGED-REVENUE COVERAGE
SCHOOL FACILITIES BOARD STATE SCHOOL TRUST REVENUE BONDS
FOR THE LAST FIVE FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(2)	(3)			Coverage
	Pledged Revenue	Debt Service			
		Principal	Interest	Total	
2008	\$ 72,263	\$ 14,470	\$ 8,400	\$ 22,870	3.16
2007	72,263	13,980	11,524	25,504	2.83
2006	72,263	13,440	12,061	25,501	2.83
2005	72,263	13,740	11,960	25,700	2.81
2004	64,903	-	8,634	8,634	7.52

- (1) No debt service payments were due prior to fiscal year 2004.
- (2) Pledged revenues consist of expendable revenue from the State School Trust. This revenue includes the State Treasurer's formula distribution of earnings on permanent fund investments as specified in the Arizona Constitution. Additionally, the State Land Commissioner distributes interest received from financed sales of trust lands and revenue received from land trust leases, except that, under current statutes, the amount of State School Trust Revenues available to pay debt service on all State School Trust Revenue Obligations shall not exceed \$72,263. Expendable trust revenues in excess of \$72,263 must be deposited in the Classroom Site Fund.
- (3) 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 19
PLEDGED-REVENUE COVERAGE
ARIZONA STATE UNIVERSITY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service				Total	Coverage
		Principal	Interest	Net Payments (Receipts) On Swap Agreements			
2008	\$ 580,102	\$ 17,125	\$ 21,339	\$ 186	\$ 38,650	15.01	
2007	505,890	14,625	17,313	-	31,938	15.84	
2006	458,177	11,205	16,307	-	27,512	16.65	
2005	383,756	1,340	16,260	-	17,600	21.80	
2004	325,626	-	13,754	-	13,754	23.68	
2003	297,691	9,695	9,575	-	19,270	15.45	
2002	274,596	9,785	12,139	-	21,924	12.52	
2001	261,328	8,995	11,766	-	20,761	12.59	
2000	242,764	9,640	12,245	-	21,885	11.09	
1999	233,404	9,205	12,685	-	21,890	10.66	

- (1) Pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue.
(2) Pledged revenues prior to payment date of 2004 have been restated to include West and Polytechnic campuses.

STATE OF ARIZONA
SCHEDULE 20
PLEDGED-REVENUE COVERAGE
UNIVERSITY OF ARIZONA REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(1)		Net Revenue Available for Debt Service	Debt Service			Coverage
	(1), (2)	Direct		Principal	Interest	Total	
	Gross Revenues	Operating Expenses					
2008	\$ 1,113,954	\$ 1,005,572	\$ 108,382	\$ 21,235	\$ 14,978	\$ 36,213	2.99
2007	982,559	899,084	83,475	17,440	14,166	31,606	2.64
2006	897,706	836,657	61,049	12,355	13,433	25,788	2.37
2005	830,077	774,014	56,063	11,815	11,817	23,632	2.37
2004	778,939	727,161	51,778	10,970	11,706	22,676	2.28
2003	726,258	667,627	58,631	12,625	12,156	24,781	2.37
2002	670,326	625,664	44,662	9,946	15,500	25,446	1.76
2001	710,423	663,284	47,139	12,415	16,359	28,774	1.64
2000	674,330	625,318	49,012	11,700	13,081	24,781	1.98
1999	650,201	580,292	69,909	10,714	14,869	25,583	2.73

(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. Fiscal year 2002 Gross Revenues and Direct Operating Expenses include accounting changes applied to scholarship and allowance due to implementation of GASB Statements 34 and 35.

(2) Payment of principal and interest on revenue bonds are secured by a pledge of tuition and fees, sales and services, auxiliary enterprises, and other charges.

STATE OF ARIZONA
SCHEDULE 21
PLEDGED-REVENUE COVERAGE
NORTHERN ARIZONA UNIVERSITY REVENUE BONDS
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Fiscal Year	(1)		Debt Service			Coverage
	Gross Revenues	Principal	Interest	Total		
2008	\$ 143,733	\$ 10,455	\$ 6,628	\$ 17,083	8.41	
2007	136,100	9,610	5,943	15,553	8.75	
2006	129,608	10,310	6,603	16,913	7.66	
2005	110,981	10,065	6,060	16,125	6.88	
2004	103,192	10,294	5,778	16,072	6.42	
2003	85,294	9,426	5,066	14,492	5.89	
2002	82,839	6,932	3,949	10,881	7.61	
2001	78,907	6,214	5,246	11,460	6.89	
2000	75,852	6,119	5,488	11,607	6.54	
1999	73,467	6,075	5,810	11,885	6.18	

(1) Revenue bonds are repaid from pledged gross revenues that primarily consist of student tuition and fees and certain auxiliary revenues.

STATE OF ARIZONA
 SCHEDULE 22
DEMOGRAPHIC AND ECONOMIC STATISTICS
 FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended	Population (1)	Personal Income (2) (in thousands)	Per Capita Personal Income (3)	Unemployment Rate (4)
December 31				
2007	6,353,421	\$ 208,603,166	\$ 32,833	3.8
2006	6,178,251	199,465,150	32,285	4.1
2005	5,961,239	182,533,149	30,620	4.6
2004	5,750,475	164,922,611	28,680	5.0
2003	5,585,512	150,582,313	26,959	5.7
2002	5,449,195	144,150,287	26,454	6.0
2001	5,303,632	138,853,800	26,181	4.7
2000	5,166,810	132,557,859	25,656	4.0
1999	5,023,823	120,857,125	24,057	4.4
1998	4,883,342	113,370,224	23,216	4.1

- (1) These are midyear population estimates of the U.S. Bureau of the Census. Years 2000 through 2006 have been revised to reflect revisions made by the U.S. Bureau of the Census.
- (2) Personal income estimates for years 2004 through 2006 were revised to reflect revisions made by the U.S. Bureau of the Census.
- (3) Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census. Years 2000 through 2006 have been revised to reflect revisions in personal income and population estimates.
- (4) The unemployment rate for the years 1998, 1999, and 2004 was revised.

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).
 Arizona Department of Economic Security's website, www.workforce.az.gov (for unemployment rates).

STATE OF ARIZONA
 SCHEDULE 23
PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO

Employer	Calendar Year Ended December 31, 2007			Calendar Year Ended December 31, 1998		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	50,079	1	1.88 %	63,961	1	3.03 %
Wal-Mart Stores Inc.	30,174	2	1.13	11,900	5	0.56
Banner Health (1)	17,020	3	0.64	9,000	9	0.43
City of Phoenix	14,453	4	0.54	13,300	3	0.63
Maricopa County	14,057	5	0.53	12,963	4	0.61
Wells Fargo & Co.	14,000	6	0.53	-	-	-
Arizona State University	12,727	7	0.48	-	-	-
Fry's Food & Drug Stores	11,780	8	0.44	-	-	-
Raytheon Missile Systems	11,184	9	0.42	-	-	-
U.S. Postal Service	11,000	10	0.41	10,772	6	0.51
Motorola	-	-	-	18,500	2	0.88
University of Arizona	-	-	-	10,520	7	0.50
Fort Huachuca Army Base	-	-	-	10,312	8	0.49
Allied Signal Inc.	-	-	-	9,000	9	0.43
American Express Corp.	-	-	-	9,000	9	0.43
Banc One Corp.	-	-	-	9,000	9	0.43
Total	186,474		7.00 %	188,228		8.93 %

- (1) Formerly known as Samaritan Health Systems.

Sources: The Business Journal, Book of Lists 2008 and 1999 (for Maricopa County employers).
 The Arizona Daily Star's Star 200 report for 2008 and 1999 (for Pima County employers, which include the U.S. Army Intelligence Center and Fort Huachuca, Raytheon Missile Systems, and the University of Arizona).
 Arizona Department of Economic Security's website, www.workforce.az.gov (for annual State employment).

STATE OF ARIZONA
SCHEDULE 24
STATE EMPLOYEES BY FUNCTION (1)
FOR THE LAST FIVE FISCAL YEARS (2)
FISCAL YEAR ENDED JUNE 30, 2008

	Fiscal Year				
	2008	2007	2006	2005	2004
FULL-TIME EQUIVALENT EMPLOYEES					
General government:					
Lottery	110.0	110.0	110.0	110.0	110.0
Arizona State Retirement System	235.0	231.0	221.0	199.0	197.0
Department of Revenue	1,164.0	1,148.0	1,146.0	1,024.0	1,134.0
All other	2,999.2	2,957.5	2,898.6	2,944.3	3,003.0
Health and welfare:					
Department of Economic Security	4,099.2	3,874.4	3,953.7	3,902.7	3,592.9
Arizona Health Care Cost Containment System	1,629.0	1,617.3	1,583.5	1,574.5	1,530.1
Department of Health Services	1,702.1	1,680.4	1,735.5	1,734.5	1,701.5
All other	981.5	859.9	858.5	924.2	933.2
Inspection and regulation	1,930.1	1,853.7	1,827.3	1,818.5	1,815.3
Education:					
Universities	17,138.8	16,975.0	16,419.5	16,027.5	15,467.4
All other	1,001.4	969.0	913.8	949.5	948.1
Protection and safety:					
Department of Corrections	9,755.9	9,726.9	9,726.9	10,322.4	10,295.4
Department of Juvenile Corrections	1,163.7	1,195.7	1,160.5	1,151.5	1,214.4
Department of Public Safety	2,108.8	2,065.8	1,901.8	1,872.0	1,853.0
All other	133.9	125.4	127.4	120.6	149.6
Department of Transportation	4,744.0	4,703.5	4,649.0	4,626.0	4,605.0
Natural resources	1,007.7	967.3	926.9	903.2	856.9
Total	51,904.3	51,060.8	50,159.9	50,204.4	49,406.8

- (1) Full-time equivalent employees are categorized by the function of government that their respective agency generally serves. Information is not available to distinguish between governmental, business-type, or fiduciary activities.
- (2) Ten years of data is not available, but will be accumulated over time.

Source: The Executive Budget (Detail).

STATE OF ARIZONA
SCHEDULE 25
OPERATING INDICATORS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	Fiscal Year						
	2008	2007	2006	2005	2004	2003	2002
General government:							
Number of tax returns received (in millions)	5.6	5.5	5.5	6.0	6.0	5.3	6.3
Health and welfare:							
Arizona Health Care Cost Containment System membership (2)	1,136,585	1,075,125	1,065,444	1,075,873	971,292	955,600	791,000
Average monthly number of recipients of temporary assistance for needy families	80,221	82,408	93,553	105,517	122,577	121,193	109,547
Average monthly number of persons receiving food stamp benefits	600,549	537,072	546,424	546,369	521,992	442,320	355,722
Inspection and regulation:							
Nonfatal occupational injuries and illnesses:							
Total recordable cases (in thousands) (3)	101.8	99.4	97.0	87.1	85.7	95.9	113.1
Incident rate per 100 full-time workers (3)	4.6	4.6	4.9	4.7	4.8	5.1	5.9
Education:							
Public school enrollment, grades K-12 (4)	1,132,963	1,106,207	1,084,247	1,043,704	1,002,630	970,283	915,656
Protection and safety:							
Number of miles patrolled by the Highway Patrol	N/A	20,282,212	19,703,282	19,922,704	19,229,079	18,363,977	18,160,134
State prison adult inmate population (5)	38,897	37,088	34,864	32,710	31,937	30,898	29,273
Transportation:							
Number of registered vehicles (6)	6,733,610	6,608,726	6,318,402	5,945,131	5,638,799	5,311,590	5,118,115
Number of driver licenses issued (7)	1,200,227	1,266,973	1,205,068	1,158,223	1,122,893	1,039,780	1,072,245
Natural resources:							
Game and Fish Department's license and tag sales (8)	\$ 896,143	\$ 940,223	\$ 897,159	\$ 808,055	\$ 835,669	\$ 865,634	\$ 898,453
Universities:							
University full-time equivalent students (9)	113,092	110,580	107,765	104,685	102,461	100,258	96,603
Unemployment compensation:							
Number of initial unemployment claims filed	226,772	185,397	161,869	200,282	227,585	255,579	255,303
Industrial Commission special fund:							
No-insurance awards issued	2,748	3,265	2,744	3,281	3,300	2,954	3,986
Number of vocational rehabilitation awards issued	118	133	124	102	139	150	121
Lottery:							
Total lottery sales (in millions)	\$ 472.9	\$ 462.2	\$ 468.7	\$ 397.6	\$ 366.6	\$ 322.3	\$ 294.8
Other business-type activities:							
Arizona Health Care Cost Containment System's Healthcare Group membership (10)	21,646	26,914	21,600	14,626	11,218	11,400	12,100

N/A = Not available

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as an academic or calendar year), as indicated in the notes below.
- (2) Approximate number of members enrolled as of June 1. Excludes membership in the Healthcare Group, which is listed separately as other business-type activities, beginning in fiscal year 2002. In November 2000, Arizona voters approved Proposition 204, the Healthy Arizona Initiative, which expanded eligibility to 100% of the federal poverty level. This added 142,800 members and accounted for 28.5% of the overall growth since March 1, 2001.
- (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 2008 contains data for the calendar year ending December 31, 2007. 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 2008 contains data from the October 1, 2007 enrollment figures. Please note that these 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 forward, concurrent enrollments in technology schools are included, which may additionally overstate aggregated enrollment figures.
- (5) Beginning in 2007, the state prison inmate population on the 2 Year Prison Population Trend Report excludes the inmate count from the county jail. For fiscal years 2006 and prior, the number includes both the county jail and the outside count of inmates.
- (6) Count represents the total number of vehicles registered as of the end of the fiscal year. Starting with fiscal year 2002, a new category for "unassigned vehicles" was added to more fully reflect the total count of all registered vehicles.
- (7) Count represents the number of driver licenses issued during that fiscal year, beginning July 1 and ending June 30. The drop in count from fiscal year 1999 to fiscal year 2000 was due to the change from a five-year driver license to an extended driver license, where expiration occurs on the licensee's 65th birthday. Although the extended driver license was fully implemented at all offices in July 1993, it was not until the end of 1999 that the last of the licenses with five-year expirations were converted to extended licenses.
- (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 2008 contains data for the calendar year ending December 31, 2007.
- (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 2008 contains data for the fall 2007 semester. These figures are generated by calculating one full-time equivalent student for each 15 student credit hours produced in lower-division undergraduate courses, each 12 student credit hours produced in upper-division undergraduate courses, and each 10 student credit hours produced in graduate courses.
- (10) Approximate number of members enrolled as of June 1.

Sources: The State Departments of Transportation, Public Safety, Corrections, Education, Game and Fish, Economic Security, Revenue, the Industrial Commission of Arizona, Arizona Lottery, Arizona Health Care Cost Containment System, Arizona Board of Regents, and the U.S. Department of Labor.

Fiscal Year		
2001	2000	1999
N/A	N/A	N/A
609,000	N/A	N/A
93,857	89,770	95,556
277,192	257,989	260,736
112.8	111.8	111.4
6.0	6.1	6.2
878,987	866,626	833,301
N/A	N/A	N/A
27,451	26,402	26,169
4,639,405	4,407,098	4,159,576
973,476	967,086	1,293,425
\$ 986,691	\$ 918,038	N/A
92,725	92,211	91,163
187,697	155,675	161,006
N/A	N/A	N/A
N/A	N/A	N/A
\$ 272.7	\$ 255.6	\$ 268.3
N/A	N/A	N/A

STATE OF ARIZONA
 SCHEDULE 26
CAPITAL ASSET STATISTICS BY FUNCTION
 FOR THE LAST TEN FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAMS	Fiscal Year						
	2008	2007	2006	2005	2004	2003	2002
Protection and safety:							
Number of adult prison facilities (3)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (2)	6,785	6,817	6,922	6,816	6,912	6,801	6,650
Number of bridges (2)	4,637	4,648	4,676	4,608	4,488	4,463	4,378
Natural resources:							
State Trust acres	9,260,253	9,262,781	9,267,377	9,269,723	9,271,580	9,279,243	9,266,158
Universities:							
Number of facilities (4)	1,669	1,663	1,002	N/A	N/A	N/A	N/A
Gross square feet (in thousands) (4)	36,000	34,946	20,154	N/A	N/A	N/A	N/A

N/A = Not available

Note: No capital asset indicators are available for the general government, health and welfare, inspection and regulation, education, unemployment compensation, Industrial Commission special fund, Lottery, and other business-type activity functions.

- (1) Ten years of data may not be available for some statistics, but will be accumulated over time. Also, some figures may represent time periods other than a fiscal year (such as a calendar year), as indicated in the notes below.
- (2) These are the number of center lane miles and bridges that the Arizona Department of Transportation accounts for under the modified approach, which is discussed in the Required Supplementary Information portion of this report. The number of center lane miles are for the calendar year ended December 31. The fiscal years above contain the number of center lane miles for the calendar year that ends during that fiscal year. For example, fiscal year 2008 contains the number of center lane miles for the calendar year ending December 31, 2007.
- (3) The Arizona Department of Corrections also contracts with private prison facilities to provide custody and treatment.
- (4) In addition to academic/support facilities, auxiliary enterprise facilities are also reported. These would include essentially self-supporting entities, such as residence halls and parking structures.

Sources: The State Departments of Transportation, Land, and Corrections and the Universities.

Fiscal Year		
2001	2000	1999
10	10	10
N/A	N/A	N/A
N/A	N/A	N/A
9,271,921	9,273,846	9,277,496
N/A	N/A	N/A
N/A	N/A	N/A

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