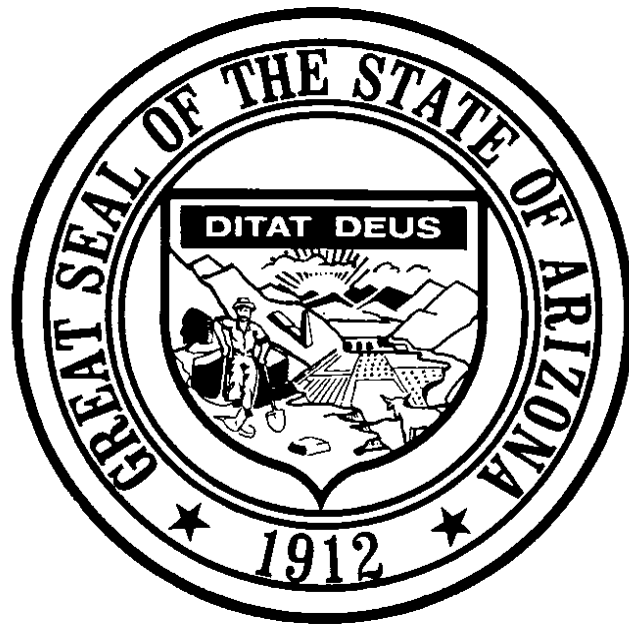


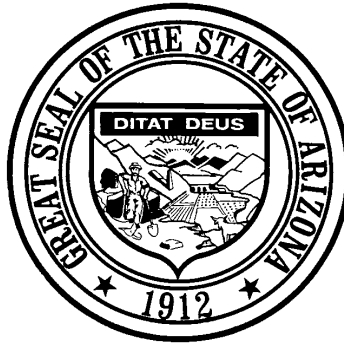
# STATE OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017



**Douglas A. Ducey**  
**GOVERNOR**



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



STATE OF ARIZONA  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

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# INTRODUCTORY SECTION





Douglas A. Ducey  
Governor



Gilbert Davidson  
Chief of Operations  
and Interim Director

## ARIZONA DEPARTMENT OF ADMINISTRATION

### OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007  
(602) 542-1500

March 15, 2018

The Honorable Douglas A. Ducey,  
Governor of the State of Arizona;  
Members of the Legislature;  
Scott Bales, Chief Justice of the Supreme Court;  
and Citizens and Taxpayers of the State of Arizona

Ladies and Gentlemen:

It is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arizona for the fiscal year ended June 30, 2017. 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 State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

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

### **INTERNAL CONTROLS**

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

### **INDEPENDENT AUDIT**

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

## **FINANCIAL REPORTING ENTITY OF THE STATE**

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

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

## **ARIZONA**

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

## **PROFILE OF THE GOVERNMENT**

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

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

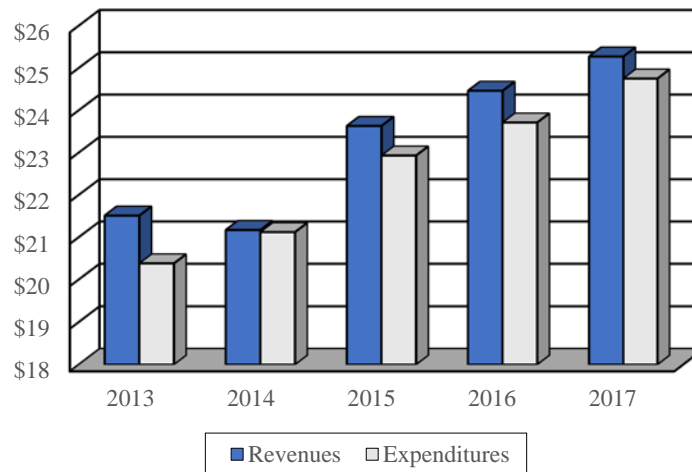
## **BUDGETARY CONTROLS**

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

## GENERAL FUND BALANCE

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

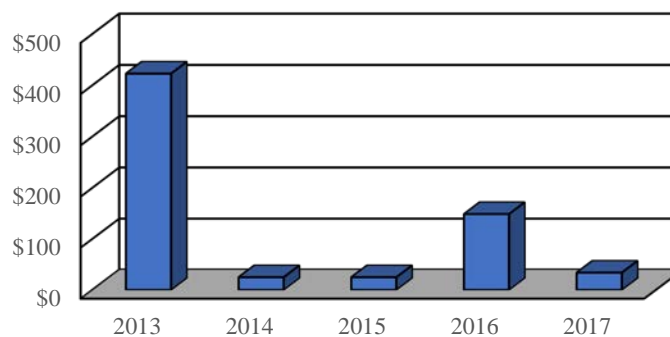
Graph 1  
General Fund Revenues and Expenditures  
for last 5 fiscal years  
(Dollars in billions)



The General Fund ended the June 30, 2017 fiscal year with a total fund balance of \$34.4 million. This compares to the previous year's total fund balance of \$149.1 million.

Graph 2 summarizes 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 based on the Industry Employment Projections Presentation released on March 09, 2017, by the Office of Economic Opportunity within the Arizona Department of Administration.*

The employment projections estimation methodology is described below:

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

Industry projection methodology included and excluded data as follows:

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

Economic assumptions influencing the projections are as follows:

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

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

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

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

Annual Growth Rate (Compound)

	2016 Q2 - 2018 Q2(a)
Total All Industries	2.4%
Construction	3.9%
Professional and Business Services	3.3%
Education and Health Services	3.3%
Leisure and Hospitality	2.8%
Financial Activities	2.7%
Trade, Transportation, and Utilities	1.5%
Other Services (Except Government)	1.0%
Information	0.7%
Manufacturing	0.5%
Government	0.3%
Natural Resources and Mining	(1.1%)

a) Forecast

Arizona Major Industry Groups (2016 & 2018 Employment Share)

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

b) Estimated

c) Projected

**MAJOR INITIATIVES**

The Major Initiatives for the year ended June 30, 2017, were as follows:

- Behavioral Health Services was transferred from the Department of Health Services to the Arizona Healthcare Cost Containment System, streamlining physical and behavioral healthcare to achieve greater coordination of services.
- An investment of \$57 million was made to accelerate improvements to critical commerce transportation corridors; and an additional \$30 million was directed to local government entities for transportation projects.

- The School Facilities Board received \$23 million of funding for new school construction at two school districts in Maricopa County. Additionally, the Board received a total of \$32 million for major maintenance of capital facilities.
- Several large-scale Information Technology projects were funded with a \$48 million appropriation, including \$12 million to replace the State's e-Procurement system, \$8 million for the final phase of a three-year replacement of a new inmate database at the Department of Corrections, and \$5 million for year two of a three-year overhaul of the case management database at the Department of Child Safety.
- Joint Technical Education District funding increased by \$29 million in conjunction with added accountability and transparency reforms.
- The Arizona Public School Credit Enhancement Program was created with a \$24 million appropriation to assist high-achieving district and charter schools in obtaining lower-cost financing to expand their facilities and serve more students.
- The Border Strike Task Force, established at the Department of Public Safety to reduce criminal activity near the border, was allotted \$23 million to purchase new equipment and hire additional law enforcement officers.
- Arizona's public universities received an additional \$19 million to fund operations and capital projects.
- To address growth in the State's prison population, 1,000 medium-security private prison beds were added, at a cost of \$18 million.
- Laws 2016, Ch. 112 reopened the KidsCare program, which provides health insurance to children from 100% to 200% of the federal poverty level. The program had been frozen since January 2010 and enrollment dropped to 500. Since the reopening of the program, enrollment has grown to 21,000. Through September 2019, the federal government pays 100% of the state match for the cost of coverage for these children.

#### AWARDS AND ACKNOWLEDGMENTS

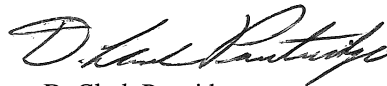
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arizona for its CAFR for the fiscal year ended June 30, 2016. This was the thirteenth consecutive year that the State has achieved 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.



Gilbert Davidson  
Chief of Operations  
and Interim Director



D. Clark Partridge  
State Comptroller



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**State of Arizona**

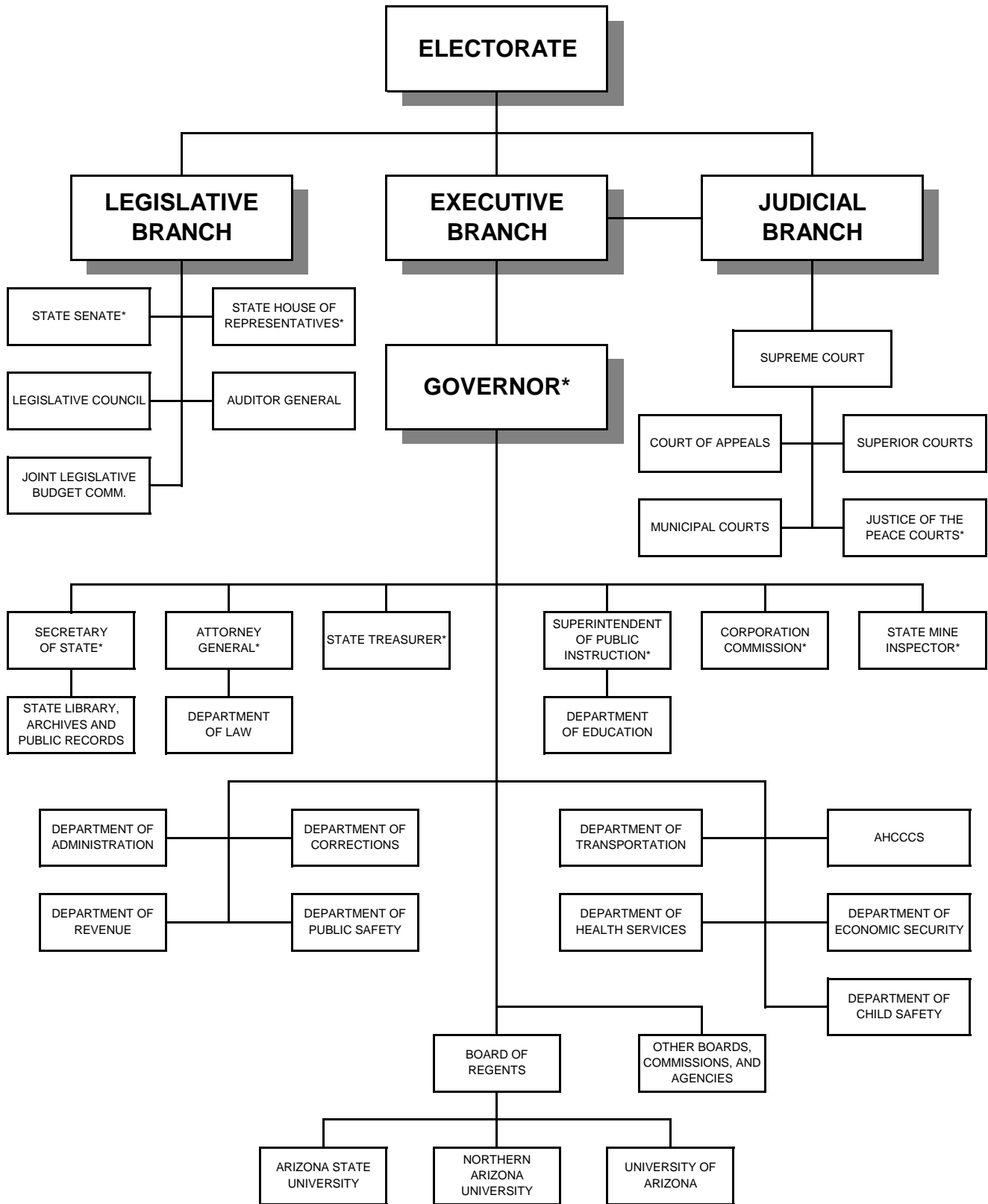
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

*Christopher P. Morill*

Executive Director/CEO

# ARIZONA STATE GOVERNMENT ORGANIZATION



\*ELECTED OFFICIALS



STATE OF ARIZONA  
**PRINCIPAL STATE OFFICIALS**  
JUNE 30, 2017

ELECTED OFFICIALS

Douglas A. Ducey, Governor	Diane Douglas, Superintendent of Public Instruction
Senator Steve Yarbrough, President of the Senate	Tom Forese, Chairman – Corporation Commission
Representative J.D. Mesnard, Speaker of the House	Bob Burns, Commissioner – Corporation Commission
Michele Reagan, Secretary of State	Andy Tobin, Commissioner – Corporation Commission
Mark Brnovich, Attorney General	Boyd Dunn, Commissioner – Corporation Commission
Joe Hart, State Mine Inspector	Justin Olson, Commissioner – Corporation Commission - current
Jeff DeWit, State Treasurer	Doug Little, Commissioner – Corporation Commission - through September, 2017

APPOINTED OFFICIALS

**Executive Officials**

Gilbert Davidson, Chief of Operations and Interim  
Director – Department of Administration - current

Craig Brown, Director – Department of Administration -  
through January, 2018

Charles L. Ryan, Director – Department of Corrections

Michael Traylor, Director – Department of Economic  
Security

Greg McKay, Director – Department of Child Safety

David Briant, Director – Department of Revenue

Frank Milstead, Director – Department of Public Safety

Dr. Cara Christ, Director – Department of Health Services

Tom Betlach, Director – Arizona Health Care Cost  
Containment System

John Halikowski, Director – Department of Transportation

**Judicial Officials**

Scott Bales, Chief Justice – Supreme Court

**Legislative Officials**

Michael E. Braun, Executive Director – Legislative Council

Richard Stavneak, Director – Joint Legislative Budget  
Committee

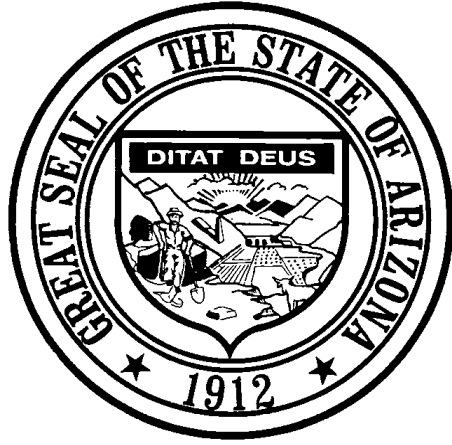
Debra K. Davenport, CPA, Auditor General – Office of the  
Auditor General

**University Officials**

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

Dr. Rita Cheng, President – Northern Arizona University

Dr. Robert C. Robbins, President – University of Arizona



# FINANCIAL SECTION

**FINANCIAL SECTION**

INDEPENDENT  
AUDITORS' REPORT

**INDEPENDENT AUDITORS' REPORT**



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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

## Independent auditors' report

The Honorable Doug Ducey, Governor  
State of Arizona

The Honorable Steve Yarbrough, President  
Arizona State Senate

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

The Honorable Scott Bales, Chief Justice  
Arizona Supreme Court

### **Report on the financial statements**

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

#### ***Management's responsibility for the financial statements***

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

#### ***Auditors' responsibility***

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

Opinion unit/department	Assets and deferred outflows of resources	Revenues, additions, and other financing sources
<b><u>Government-wide statements</u></b>		
<u>Governmental activities</u>		
Arizona Department of Transportation	62.29%	12.40%
Arizona Health Care Cost Containment System	4.42%	35.79%
Early Childhood Development and Health Board	1.04%	0.45%
<u>Business-type activities</u>		
Arizona Correctional Industries	0.27%	0.68%
Arizona Department of Transportation	0.55%	0.01%
Arizona State Lottery	0.92%	13.23%
<b><u>Aggregate discretely presented component units</u></b>	<b>97.56%</b>	<b>96.76%</b>
<b><u>Fund statements</u></b>		
<u>Major funds:</u>		
<u>General fund</u>		
Arizona Health Care Cost Containment System	40.03%	40.79%
<u>Transportation and aviation planning, highway maintenance and safety fund</u>		
Arizona Department of Transportation	100.00%	100.00%
<u>Aggregate remaining fund information</u>		
Arizona Correctional Industries	0.05%	0.29%
Arizona Department of Transportation	0.29%	5.39%
Arizona Health Care Cost Containment System	0.18%	3.58%
Arizona State Lottery	0.18%	5.58%
Arizona State Retirement System	68.63%	44.75%
Corrections Officer Retirement Plan	3.57%	2.41%
Early Childhood Development and Health Board	0.70%	0.91%
Elected Officials' Retirement Plan	0.62%	0.47%
Public Safety Personnel Retirement System	13.67%	10.47%

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



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

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

### **Opinions**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### **Other matters**

#### *Required supplementary information*

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

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

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

### *Supplementary and other information*

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

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

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

### **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we will issue our report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is solely 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 the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

March 15, 2018

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, 2017. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

### FINANCIAL HIGHLIGHTS

#### Government-wide:

- The assets and deferred outflows of resources of the State exceeded liabilities and deferred inflows of resources at the close of the fiscal year by \$26.4 billion (reported as net position). Of this amount, a deficit of \$5.0 billion exists for unrestricted net position, \$8.9 billion is restricted for specific purposes (restricted net position), and \$22.5 billion is net investment in capital assets.
- The State's total net position increased in fiscal year 2017 by \$1.7 billion. Net position of governmental activities increased by \$1.3 billion, while net position of the business-type activities increased by \$453.4 million.

#### Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$8.1 billion, an increase of \$385.4 million from the beginning of the year. After accounting for non-spendable, restricted, and committed fund balances of \$5.6 billion, \$1.7 billion, and \$1.1 billion, respectively, the State's unassigned fund balance had a deficit of \$277.0 million, or (3%) of combined fund balances.
- As of the close of the fiscal year, unassigned fund balance for the General Fund had a deficit of \$258.3 million, which is approximately (1%) of total General Fund expenditures.
- The Land Endowments Fund reported fund balance at fiscal year-end of \$5.6 billion, an increase of \$487.9 million during the year. The Land Endowments Fund is used to help finance public education within the State as required by the federal government and the State's Constitution.
- The enterprise funds reported net position at fiscal year-end of \$3.6 billion, an increase of \$477.2 million during the year.

#### Long-term Debt:

- The State's total long-term primary government debt decreased during the fiscal year to \$9.4 billion, a decrease of \$145.0 million or (2%). Changes during the year included the addition of revenue bonds and certificates of participation (COPs) of \$802.0 million and \$119.9 million, respectively. Also, the State retired \$752.7 million of revenue bonds and \$250.0 million of COPs. Included within the change of long-term primary government debt are increases and decreases in net issuance premiums of \$200.6 million and \$119.5 million, respectively.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

Government-wide statements report three activities:

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

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

The fund financial statements begin on **page 45** and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, **page 172** begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – each category uses different accounting approaches.

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

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

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

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

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

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

## **Notes to the Financial Statements**

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

**Notes to the financial statements begins on page 65 of this report.**

## **Required Supplementary Information**

Following the basic financial statements is additional Required Supplementary Information (RSI) that further explains and supports the information in the financial statements. The RSI includes budgetary expenditure comparison schedules for the General Fund and each major special revenue fund and a reconciliation of the schedules of statutory and U.S. GAAP expenditures for the fiscal year. The RSI also includes up to ten years of information on the State's pension plans, including schedules on the State's proportionate share of the net pension liability, changes in the net pension liability and related ratios, and State pension contributions. The RSI also includes schedules of condition and maintenance data regarding certain portions of the State's infrastructure and the single-employer Other Post-Employment Benefits (OPEB) plan funding progress schedule.

**Required supplementary information begins on page 143 of this report.**

## **Other Supplementary Information**

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

**Other supplementary information begins on page 172 of this report.**



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

### State of Arizona-Primary Government Net Position as of June 30, 2017 and 2016 (expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 5,986,883	\$ 6,333,278	\$ 2,098,043	\$ 1,822,589	\$ 8,084,926	\$ 8,155,867
Capital assets	23,733,399	22,971,687	5,379,401	5,074,870	29,112,800	28,046,557
Other non-current assets	6,805,712	6,326,774	2,957,568	2,650,605	9,763,280	8,977,379
Total Assets	36,525,994	35,631,739	10,435,012	9,548,064	46,961,006	45,179,803
Deferred outflows of resources	1,016,987	711,744	398,068	290,441	1,415,055	1,002,185
Current liabilities	4,818,837	4,926,872	876,041	884,383	5,694,878	5,811,255
Non-current liabilities	9,657,803	9,807,941	5,859,774	5,398,775	15,517,577	15,206,716
Total Liabilities	14,476,640	14,734,813	6,735,815	6,283,158	21,212,455	21,017,971
Deferred inflows of resources	400,593	235,358	402,452	327,227	803,045	562,585
Net position:						
Net investment						
in capital assets	20,583,563	19,722,730	1,879,901	1,761,694	22,463,464	21,484,424
Restricted	7,424,033	6,856,271	1,445,218	1,191,605	8,869,251	8,047,876
Unrestricted	(5,341,848)	(5,205,689)	369,694	274,821	(4,972,154)	(4,930,868)
Total Net Position	\$ 22,665,748	\$ 21,373,312	\$ 3,694,813	\$ 3,228,120	\$ 26,360,561	\$ 24,601,432

For the year ended June 30, 2017, the State's combined net position totaled \$26.4 billion, reflecting an increase of \$1.7 billion during the current fiscal year.

The largest portion of the State's net position (85%) represents net investment in capital assets of \$22.5 billion. Additions to land, roads, and bridges provided the majority of the governmental activities increase in net investment in capital assets of \$860.8 million. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt are planned to be provided from other sources, since the capital assets themselves are not typically used to liquidate these liabilities.

The State's net position also included \$8.9 billion (34%) of resources that are subject to external restrictions on how they may be used. The governmental activities increase in restricted net position of \$567.8 million is largely a result of an increase of \$353.8 million in the amount restricted by the State's Constitution for basic education funded by the Land Endowments Fund, an increase of \$152.2 million in the amount restricted for capital projects, and an increase of \$76.5 million in the amount restricted for health and welfare. The business-type activities increase in restricted net position of \$253.6 million is primarily due to an increase of \$234.9 million in the amount restricted for the Unemployment Compensation Fund.

After accounting for the above net position restrictions, the State has a remaining deficit of \$5.0 billion (19%) reported as unrestricted net position.

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

State of Arizona-Primary Government  
Changes in Net Position for Fiscal Years June 30, 2017 and 2016  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 1,229,794	\$ 1,191,069	\$ 4,170,205	\$ 3,987,187	\$ 5,399,999	\$ 5,178,256
Operating grants and contributions	14,732,701	13,532,247	1,488,002	1,452,562	16,220,703	14,984,809
Capital grants and contributions	716,455	870,644	27,368	11,911	743,823	882,555
General revenues:						
Sales taxes	6,775,704	6,455,837	72,696	69,927	6,848,400	6,525,764
Income taxes	4,500,902	4,511,674	-	-	4,500,902	4,511,674
Tobacco taxes	316,073	318,902	-	-	316,073	318,902
Property taxes	46,798	51,735	-	-	46,798	51,735
Motor vehicle and fuel taxes	1,875,392	1,823,998	-	-	1,875,392	1,823,998
Other taxes	655,363	616,580	-	-	655,363	616,580
Unrestricted investment earnings	50,009	58,250	81,363	68,795	131,372	127,045
Unrestricted grants and contributions	35,032	115,097	-	548	35,032	115,645
Gain on sale of trust land	47,503	75,042	-	-	47,503	75,042
Miscellaneous revenue	117,933	247,462	79,726	65,143	197,659	312,605
<b>Total Revenues</b>	<b>31,099,659</b>	<b>29,868,537</b>	<b>5,919,360</b>	<b>5,656,073</b>	<b>37,019,019</b>	<b>35,524,610</b>
Expenses:						
General government	862,738	807,320	-	-	862,738	807,320
Health and welfare	15,661,167	15,152,650	-	-	15,661,167	15,152,650
Inspection and regulation	163,416	168,719	-	-	163,416	168,719
Education	6,369,100	6,136,303	-	-	6,369,100	6,136,303
Protection and safety	1,662,550	1,585,620	-	-	1,662,550	1,585,620
Transportation	799,882	858,958	-	-	799,882	858,958
Natural resources	216,318	208,563	-	-	216,318	208,563
Intergovernmental revenue sharing	3,349,498	3,176,183	-	-	3,349,498	3,176,183
Interest on long-term debt	193,099	210,326	-	-	193,099	210,326
Universities	-	-	4,893,271	4,637,567	4,893,271	4,637,567
Other business-type activities	-	-	1,105,470	1,014,941	1,105,470	1,014,941
<b>Total Expenses</b>	<b>29,277,768</b>	<b>28,304,642</b>	<b>5,998,741</b>	<b>5,652,508</b>	<b>35,276,509</b>	<b>33,957,150</b>
Excess (deficiency) before contributions and transfers	1,821,891	1,563,895	(79,381)	3,565	1,742,510	1,567,460
Contributions to permanent endowments	-	-	3,276	5,472	3,276	5,472
Transfers	(529,455)	(465,840)	529,455	465,840	-	-
<b>Change in Net Position</b>	<b>1,292,436</b>	<b>1,098,055</b>	<b>453,350</b>	<b>474,877</b>	<b>1,745,786</b>	<b>1,572,932</b>
Net Position – Beginning, as restated	21,373,312	20,275,257	3,241,463	2,753,243	24,614,775	23,028,500
<b>Net Position - Ending</b>	<b>\$ 22,665,748</b>	<b>\$ 21,373,312</b>	<b>\$ 3,694,813</b>	<b>\$ 3,228,120</b>	<b>\$ 26,360,561</b>	<b>\$ 24,601,432</b>

For additional information on the difference between fiscal year 2016 ending net position and fiscal year 2017 beginning net position, see Note 9.B.

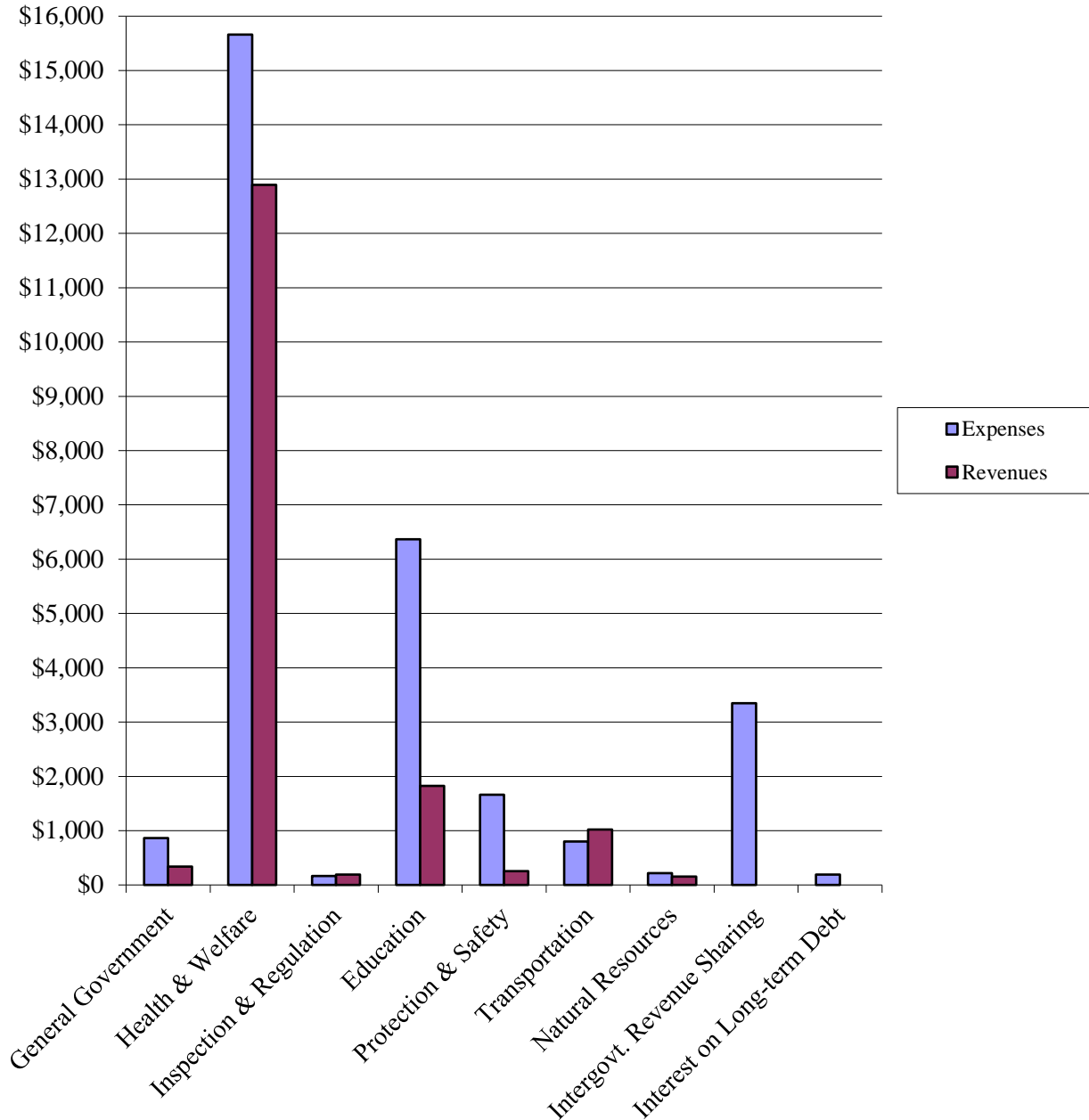
## Change in Net Position

*Governmental Activities* – Net Position increased by \$1.3 billion from fiscal year 2016, or a 6% increase from fiscal year 2016. Reported sales tax revenues increased by \$319.9 million, or 5%. The increase in sales tax collections generally reflects increased economic activity in the State during fiscal year 2017. Net taxable sales increased by 4% from fiscal year 2016, resulting in the increased reported sales tax revenue. The largest increases in net taxable sales during fiscal year 2017 were in retail sales, restaurants and bars, and contracting. The most notable change in revenues occurred within operating grants and contributions, as it increased by \$1.2 billion (9%) over fiscal year 2016. This increase is largely attributable to the enhanced federal financial participation matching rates for increased enrollment in Arizona Health Care Cost Containment System (AHCCCS) programs due to implementation of the Patient Protection and Affordable Care Act of 2010 (ACA) beginning January 1, 2014. AHCCCS experienced an increase of 73,146 members (4.0%) over fiscal year 2016. Adding to the increase in operating grants and contributions was an increase in the fair value of the Permanent Fund investment portfolio of \$632.0 million during fiscal year 2017. The increase in health and welfare expenses of \$508.5 million (3%) resulted mostly from the increased enrollment and the increase in rates and utilization for AHCCCS programs. The increase in education expenses of \$232.8 million (4%) was largely due to increased enrollment growth and inflation.

A comparison of the net cost (income) of services by function for the State’s governmental activities is shown below for fiscal years 2016 and 2017. 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	
	2017	2016	2017	2016
<b>Functions/Programs:</b>				
General government	\$ 862,738	\$ 807,320	\$ 522,576	\$ 471,422
Health and welfare	15,661,167	15,152,650	2,766,590	2,897,709
Inspection and regulation	163,416	168,719	(25,448)	(18,969)
Education	6,369,100	6,136,303	4,547,226	4,754,583
Protection and safety	1,662,550	1,585,620	1,407,098	1,415,087
Transportation	799,882	858,958	(222,178)	(275,619)
Natural resources	216,318	208,563	60,357	79,960
Intergovernmental revenue sharing	3,349,498	3,176,183	3,349,498	3,176,183
Interest on long-term debt	193,099	210,326	193,099	210,326
Total Governmental Activities	<u>\$ 29,277,768</u>	<u>\$ 28,304,642</u>	<u>\$ 12,598,818</u>	<u>\$ 12,710,682</u>

**Expenses and Program Revenues  
Governmental Activities for Fiscal Year 2017  
(in millions of dollars)**



*Business-type Activities* – Net Position increased by \$453.4 million from fiscal year 2016, or 14%. This increase is primarily due to increases in net position for the Universities and the Unemployment Compensation Fund of \$260.0 million and \$234.9 million, respectively. Non-operating revenues and transfers from the General Fund more than offset the Universities’ operating loss of \$1.1 billion. The Universities’ operating revenues increased by \$191.5 million over fiscal year 2016 primarily due to an increase in net student tuition and fees revenue, largely as a result of increased

enrollment and modest increases in tuition and fee rates. Other increases included an increase in the endowment earnings on investments and an increase in State appropriation transfers from the General Fund. Universities' operating expenses increased by \$225.1 million over fiscal year 2016 primarily due to increases in expenses for instruction, academic support, and scholarships and fellowships and student services that largely reflect continued enrollment growth. Also, the Unemployment Compensation Fund's unemployment assessment revenue increased by \$13.0 million and cost of sales and benefits decreased by \$19.8 million, as compared to the prior fiscal year, due to the decline in unemployment levels. In addition, unemployment assessment revenue of \$495.9 million was higher than the cost of sales and benefits of \$271.5 million during fiscal year 2017.

A comparison of the net cost (income) of services by function for the State's business-type activities is shown below for fiscal years 2016 and 2017. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Functions/Programs:	Business-type Activities (expressed in thousands)			
	Total Cost of Services		Net Cost (Income) of Services	
	2017	2016	2017	2016
Universities	\$ 4,893,271	\$ 4,637,567	\$ 682,202	\$ 658,206
Other	1,105,470	1,014,941	(369,036)	(457,358)
Total Business-type Activities	<u>\$ 5,998,741</u>	<u>\$ 5,652,508</u>	<u>\$ 313,166</u>	<u>\$ 200,848</u>

### FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

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

#### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2017, unassigned fund balance of the General Fund had a deficit of \$258.3 million, while total fund balance closed the year at \$34.4 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and other financing uses. Unassigned fund balance represents a negative 1% of total expenditures and other financing uses, while total fund balance is less than 1% of the same amount.

The fund balance of the State's General Fund decreased \$114.7 million during the fiscal year. Revenues exceeded expenditures by \$521.5 million, before other financing sources and uses. However, other financing sources and uses more than offset this excess by \$636.2 million, which consist primarily of transfers to the Universities in support of higher education, offset by legislative transfers from other funds to the General Fund. Overall revenues increased by \$808.8 million (3%) and expenditures increased by \$1.0 billion (4%) from fiscal year 2016. Primary reasons for decreases in fund balance during the fiscal year are due to expenditure increases for health and welfare, education, and intergovernmental revenue sharing. Primary reasons for increases in fund balance during the fiscal year are increased collections of sales taxes and increased intergovernmental revenue, including federal funding received as a result of the AHCCCS implementation of the ACA. The significant increases and decreases were discussed in the government-wide financial analysis beginning on **page 25**.

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

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for the repair and maintenance of existing roads, paying the debt service for roads that are built from the issuance of revenue bonds and grant anticipation notes, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation (ADOT). Total fund balance increased \$79.3 million during fiscal year 2017. Although revenues exceeded expenditures by \$346.9 million, transfers to non-major governmental funds of \$273.9 million, to primarily pay debt service, largely offset this excess. Overall revenue decreased by \$99.7 million (3%), however, expenditures also decreased by \$129.8 million (5%), as compared to the prior fiscal year.

## **Land Endowments Fund**

The Land Endowments Fund was established when the federal government granted Arizona statehood. Both the State's Constitution and the federal government require that the land grants given to the State be maintained indefinitely, and the earnings from the land grants should be used for public education, primarily K-12. For fiscal year 2017, the Land Endowments Fund total fund balance increased \$487.9 million. Endowment investments increased \$484.8 million, at fiscal year end, mainly due to a net increase in the fair value of investments of \$568.6 million, receipts from land sales of \$179.0 million, and realized gains of \$85.6 million. This was partially offset by increased distributions resulting from Proposition 123.

## **Proprietary funds**

The business-type activities discussion for the fund level financial statements of the State's enterprise funds provide the same type of information found in the government-wide financial analysis beginning on **page 25**.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Differences between the original budget and the final amended budget resulted in a \$2.1 billion net increase in appropriations for the General Fund. Some of the significant changes in the General Fund appropriations were:

1. \$641.8 million increase due to prior fiscal year obligations that were paid in the current fiscal year per A.R.S. § 35-191.
2. \$998.5 million increase to the Department of Education's original budget is primarily due to the basic state aid deferred payment from fiscal year 2016, which was appropriated as a supplemental appropriation in the fiscal year 2017 budget, as well as additional state aid funding.
3. \$259.3 million increase to the AHCCCS' original budget (after factoring in the prior fiscal year obligations that were paid in the current fiscal year) is primarily due to supplemental appropriation increases for voluntary payments from political subdivisions related to disproportionate share hospital and graduate medical education, Proposition 204 services, due to enrollment in excess of budgetary projections, and the KidsCare program.
4. \$57.6 million increase to the Department of Economic Security's (DES) original budget is primarily due to supplemental appropriations for certain Title XIX programs and loans to the Department from the State's Budget Stabilization Fund to fund program expenses while awaiting federal reimbursement.

The actual expenditures were less than the final budget by \$1.2 billion. Of this amount, \$92.6 million will continue as legislative multiple fiscal year spending authority for fiscal years 2018 and beyond, depending upon the budgetary guidelines of the Legislature. The remaining \$1.1 billion represents the unused portion of the State's legislatively authorized annual operating budget.

**Additional budgetary information can be found on pages 143-153 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, 2017 totaled \$29.1 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 4%, with a 3% increase in capital assets used for governmental activities and a 6% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled \$453.1 million.

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

- The ADOT started or completed roads and bridges totaling \$772.6 million during the fiscal year.
- The Universities' additions to capital assets totaled \$585.8 million and included increased investments in buildings to support instruction, research, and public service missions, as well as building renewal and other capital projects.

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, 2017 and 2016 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,561,056	\$ 3,380,840	\$ 253,185	\$ 238,533	\$ 3,814,241	\$ 3,619,373
Buildings	2,493,812	2,423,465	6,367,954	6,043,615	8,861,766	8,467,080
Improvements other than buildings	187,826	183,371	15,458	16,294	203,284	199,665
Equipment	935,461	941,394	1,755,029	1,656,639	2,690,490	2,598,033
Software and other intangibles	345,747	362,681	138,205	137,321	483,952	500,002
Collections (non-depreciable)	-	-	21,368	21,032	21,368	21,032
Infrastructure	16,216,907	16,122,195	574,485	546,210	16,791,392	16,668,405
Construction in progress	1,960,775	1,463,870	528,026	369,322	2,488,801	1,833,192
Development in progress	53,854	25,522	70,322	61,167	124,176	86,689
Total Capital Assets	25,755,438	24,903,338	9,724,032	9,090,133	35,479,470	33,993,471
Less: accumulated depreciation	(2,022,039)	(1,931,651)	(4,344,631)	(4,015,263)	(6,366,670)	(5,946,914)
Total Capital Assets, Net	\$ 23,733,399	\$ 22,971,687	\$ 5,379,401	\$ 5,074,870	\$ 29,112,800	\$ 28,046,557

As provided by GASB Statement No. 34, the State has elected to record its infrastructure assets, which the ADOT is responsible for maintaining, using the modified approach as described in Note 1.G. Assets accounted for under the modified approach include 6,780 center lane miles of roads (21,532 travel lane miles) and 4,866 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 3.67 was achieved for fiscal year 2017.

The State manages its bridges using the Bridge Management System. To comply with federal standards, the State is expected to maintain its bridges to a condition where not more than 10.0% are classified as poor. The State's most recent assessment indicated that 1.6% of the bridges were so classified for fiscal year 2017.

The State's most notable and largest highway construction project to date was started during fiscal year 2016 and was for the design, construction, and 30-year maintenance of the Loop 202 South Mountain Freeway. The project is a 22-mile, 8 lane freeway that will complete the Loop 202 and Loop 101 freeway system. The contract was entered into on February 26, 2016 for \$1.25 billion. Right-of-way cost estimates, not contractually committed, brings the total project cost estimate to \$2.0 billion, not including financing costs. Actual costs incurred by the ADOT through June 30, 2017 for this project are \$662.4 million.

**More detailed information regarding capital assets is on pages 93 and 94.**

## 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 refunding bonds for \$312.9 million and grant anticipation refunding notes for \$90.4 million to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.
- The Arizona Department of Administration issued COPs for \$119.9 million to pay a portion of the purchase option price for a State prison that was under a capital lease agreement.
- The Universities issued revenue bonds for \$489.1 million to fund the acquisition, construction, or renovation of capital facilities and infrastructure, and to refinance existing debt to obtain debt service savings by taking advantage of lower market interest rates.

State of Arizona-Primary Government  
Outstanding Major Long-Term Debt as of June 30, 2017 and 2016  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue bonds	\$ 2,640,330	\$ 2,899,875	\$ 3,010,525	\$ 2,701,665	\$ 5,650,855	\$ 5,601,540
Grant anticipation notes	129,475	147,320	-	-	129,475	147,320
Certificates of participation	1,804,395	1,891,460	557,506	600,556	2,361,901	2,492,016
Capital leases	215,084	334,909	134,399	141,117	349,483	476,026
Total	<u>\$ 4,789,284</u>	<u>\$ 5,273,564</u>	<u>\$ 3,702,430</u>	<u>\$ 3,443,338</u>	<u>\$ 8,491,714</u>	<u>\$ 8,716,902</u>

## ECONOMIC CONDITION AND OUTLOOK

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

The State's fiscal year 2018 General Fund budget reflects projected growth in base revenues of 4.3%. The net revenues are projected to increase from \$9.8 billion in fiscal year 2017 to \$9.9 billion in fiscal year 2018. General Fund spending is projected to increase from \$9.6 billion in fiscal year 2017 to \$9.8 billion in fiscal year 2018. The budget includes increased spending for K-12 education changes, increases for School Facilities Board (SFB) spending, and increased spending for DES. The General Fund fiscal year 2018 cash balance is projected to be a \$38 million balance.

The enacted budget's 3-year spending plan provides estimates of fiscal year 2019 and fiscal year 2020 spending.

The fiscal year 2019 General Fund budget is forecasted to have revenues of \$10.1 billion and expenditures of \$10.0 billion, with a \$58 million balance. After accounting for legislation enacted separately from the budget and technical adjustments, fiscal year 2019 revenues are projected to be \$10.1 billion compared to spending of \$10.0 billion. The fiscal year 2019 balance is estimated to be \$52 million, including the \$38 million fiscal year 2018 ending balance. The structural balance for fiscal year 2019 is estimated to be \$80 million. The fiscal year 2019 spending projection includes statutory formula caseload growth and removal of fiscal year 2018 spending categorized as one-time in the fiscal year 2018 budget process. Fiscal year 2019 ongoing revenues are primarily based on the Executive growth rate of 4.1%, but also incorporate separately enacted tax law changes. It also reflects new one-time spending, including \$56 million in one-time fiscal year



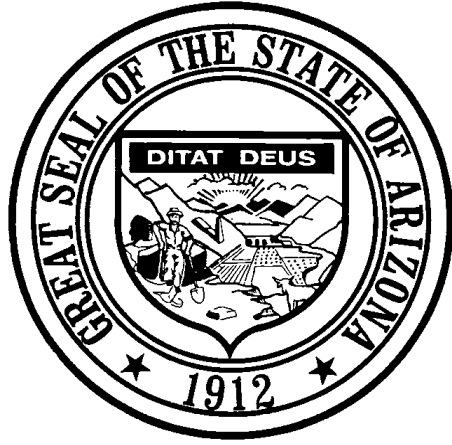
2019 spending to complete SFB school construction projects started in fiscal year 2018 and start SFB projects projected to start in fiscal year 2019.

The fiscal year 2020 General Fund budget is forecasted to have revenues of \$10.5 billion and expenditures of \$10.4 billion, with a \$157 million balance. After accounting for separately enacted legislation and technical adjustments, fiscal year 2020 revenues are projected to be \$10.5 billion compared to spending of \$10.4 billion. The fiscal year 2020 budget is estimated to have a \$122 million balance, including the \$52 million fiscal year 2019 ending balance. The structural balance for fiscal year 2020 is estimated to be \$15 million. The fiscal year 2020 spending includes statutory formula caseload growth and removal of one-time fiscal year 2019 spending. Fiscal year 2020 ongoing revenues reflect the Executive budget base growth rate of 4.5%, further adjusted for previously enacted tax law changes. It also reflects new one-time spending, including \$42 million to complete SFB school construction projects projected to start in fiscal year 2019.

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

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

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



# BASIC FINANCIAL STATEMENTS

**BASIC FINANCIAL STATEMENTS**

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STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
 JUNE 30, 2017  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 4,131	\$ 337,953	\$ 342,084	\$ 28,324
Cash with U.S. Treasury	-	571,469	571,469	-
Cash and pooled investments with State Treasurer	3,109,126	208,159	3,317,285	537,280
Restricted cash and pooled investments with State Treasurer	401,466	59,951	461,417	-
Cash held by trustee	-	-	-	953
Collateral investment pool	85,287	5,555	90,842	-
Short-term investments	-	429,071	429,071	-
Restricted investments held by trustee	-	-	-	7,847
Receivables, net of allowances:				
Taxes	588,829	94,108	682,937	-
Interest	155,760	2,721	158,481	7,845
Loans and notes	107,635	2,882	110,517	59,797
Other	169,868	232,713	402,581	13,064
Internal balances	(51,200)	51,200	-	-
Due from U.S. Government	1,007,230	65,705	1,072,935	-
Due from local governments	136,265	-	136,265	-
Due from others	243,532	-	243,532	-
Due from primary government	-	-	-	3,150
Inventories, at cost	12,964	18,377	31,341	-
Other current assets	15,990	18,179	34,169	600
<b>Total Current Assets</b>	<b>5,986,883</b>	<b>2,098,043</b>	<b>8,084,926</b>	<b>658,860</b>
Noncurrent Assets:				
Restricted assets:				
Cash	28	4,483	4,511	-
Cash and pooled investments with State Treasurer	1,067,431	-	1,067,431	11,965
Cash held by trustee	42,119	315,065	357,184	16,927
Investments	3,349	-	3,349	-
Investments held by trustee	-	464,372	464,372	1,641
Receivables, net of allowances:				
Loans and notes	42,633	32,004	74,637	766,201
Securities held in escheat	62,441	-	62,441	-
Investments	-	1,679,928	1,679,928	98,371
Endowment investments	5,587,711	448,048	6,035,759	-
Other noncurrent assets	-	13,668	13,668	635
Capital assets:				
Infrastructure, land, and other non-depreciable	21,765,336	872,901	22,638,237	19,140
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,968,063	4,506,500	6,474,563	34,093
<b>Total Noncurrent Assets</b>	<b>30,539,111</b>	<b>8,336,969</b>	<b>38,876,080</b>	<b>948,973</b>
<b>Total Assets</b>	<b>36,525,994</b>	<b>10,435,012</b>	<b>46,961,006</b>	<b>1,607,833</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	877,206	304,754	1,181,960	473
Loss on debt refundings	139,781	77,935	217,716	53,617
Interest rate swap	-	15,379	15,379	-
Future benefits and advances	-	-	-	20,648
<b>Total Deferred Outflows of Resources</b>	<b>1,016,987</b>	<b>398,068</b>	<b>1,415,055</b>	<b>74,738</b>

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

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
 JUNE 30, 2017  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 597,622	\$ 203,378	\$ 801,000	\$ 14,150
Payable for securities purchased	-	1,839	1,839	-
Accrued liabilities	786,417	101,206	887,623	7,780
Obligations under securities loan agreements	85,287	5,555	90,842	-
Tax refunds payable	16,339	-	16,339	-
Due to U.S. Government	427,568	34	427,602	-
Due to local governments	1,449,373	5	1,449,378	-
Due to others	555,297	71,841	627,138	-
Due to component units	3,150	-	3,150	-
Unearned revenue	101,901	192,141	294,042	975
Current portion of accrued insurance losses	69,184	32,283	101,467	-
Current portion of long-term debt	574,757	246,348	821,105	54,555
Current portion of other long-term liabilities	151,942	21,411	173,353	95
Total Current Liabilities	4,818,837	876,041	5,694,878	77,555
Noncurrent Liabilities:				
Unearned revenue	86,780	-	86,780	2,263
Accrued insurance losses	372,433	380,468	752,901	-
Funds held for others	-	2,578	2,578	-
Net OPEB obligation	155,656	102,243	257,899	-
Net pension liability	4,101,177	1,476,636	5,577,813	2,613
Long-term debt	4,753,162	3,782,954	8,536,116	822,721
Derivative instrument - interest rate swap	-	15,379	15,379	-
Other long-term liabilities	188,595	99,516	288,111	-
Total Noncurrent Liabilities	9,657,803	5,859,774	15,517,577	827,597
Total Liabilities	14,476,640	6,735,815	21,212,455	905,152
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	400,593	180,896	581,489	603
Resources received before time requirements met	-	220,206	220,206	-
Gain on debt refundings	-	1,350	1,350	-
Total Deferred Inflows of Resources	400,593	402,452	803,045	603
<b>NET POSITION</b>				
Net investment in capital assets	20,583,563	1,879,901	22,463,464	48,786
Restricted for:				
General government	44,721	-	44,721	-
Health and welfare	151,606	-	151,606	-
Inspection and regulation	6,320	-	6,320	-
Education	462,447	-	462,447	-
Protection and safety	18,220	-	18,220	-
Natural resources	10,430	-	10,430	-
Unemployment Compensation	-	626,344	626,344	-
Capital projects	880,638	7,377	888,015	-
Debt service	-	30,902	30,902	100,649
Permanent funds and University funds:				
Expendable	123,866	366,697	490,563	-
Nonexpendable	5,716,220	241,502	5,957,722	-
Loans and other financial assistance:				
Expendable	9,565	59,951	69,516	572,308
Other	-	112,445	112,445	15,085
Unrestricted (deficit)	(5,341,848)	369,694	(4,972,154)	39,988
Total Net Position	\$ 22,665,748	\$ 3,694,813	\$ 26,360,561	\$ 776,816

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, 2017  
(Expressed in Thousands)

**ASSETS**

Cash and cash equivalent investments	\$	78,050
Receivables:		
Pledges receivable		207,602
Other receivables		43,207
Total receivables		<u>250,809</u>
Investments:		
Investments in securities		1,833,762
Other investments		106,453
Total investments		<u>1,940,215</u>
Net direct financing leases		65,376
Property and equipment, net of accumulated depreciation		180,020
Other assets		<u>49,946</u>
Total Assets		<u>2,564,416</u>

**LIABILITIES**

Accounts payable and accrued liabilities		27,474
Liability under endowment trust agreements		370,729
Long-term debt		346,626
Deferred revenue		25,418
Other liabilities		<u>41,838</u>
Total Liabilities		<u>812,085</u>

**NET ASSETS**

Permanently restricted		1,073,379
Temporarily restricted		560,982
Unrestricted		<u>117,970</u>
Total Net Assets	\$	<u>1,752,331</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, 2017  
 (Expressed in Thousands)

	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>FUNCTIONS/PROGRAMS</b>				
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General government	\$ 862,738	\$ 195,805	\$ 144,357	\$ -
Health and welfare	15,661,167	447,334	12,446,996	247
Inspection and regulation	163,416	170,043	18,821	-
Education	6,369,100	65,033	1,756,841	-
Protection and safety	1,662,550	126,365	129,087	-
Transportation	799,882	149,297	158,156	714,607
Natural resources	216,318	75,917	78,443	1,601
Intergovernmental revenue sharing	3,349,498	-	-	-
Interest on long-term debt	193,099	-	-	-
Total Governmental Activities	<u>29,277,768</u>	<u>1,229,794</u>	<u>14,732,701</u>	<u>716,455</u>
Business-type Activities:				
Universities	4,893,271	2,708,519	1,475,182	27,368
Other	1,105,470	1,461,686	12,820	-
Total Business-type Activities	<u>5,998,741</u>	<u>4,170,205</u>	<u>1,488,002</u>	<u>27,368</u>
Total Primary Government	<u>\$ 35,276,509</u>	<u>\$ 5,399,999</u>	<u>\$ 16,220,703</u>	<u>\$ 743,823</u>
<b>COMPONENT UNITS:</b>				
Arizona Finance Authority	\$ 33,268	\$ 27,328	\$ 14,200	
Other Component Units	67,403	36,124	1,416	
Total Component Units	<u>\$ 100,671</u>	<u>\$ 63,452</u>	<u>\$ 15,616</u>	

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

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 9. B.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (522,576)		\$ (522,576)	
(2,766,590)		(2,766,590)	
25,448		25,448	
(4,547,226)		(4,547,226)	
(1,407,098)		(1,407,098)	
222,178		222,178	
(60,357)		(60,357)	
(3,349,498)		(3,349,498)	
(193,099)		(193,099)	
<u>(12,598,818)</u>		<u>(12,598,818)</u>	
	\$ (682,202)	(682,202)	
	369,036	369,036	
	<u>(313,166)</u>	<u>(313,166)</u>	
<u>(12,598,818)</u>	<u>(313,166)</u>	<u>(12,911,984)</u>	
			\$ 8,260
			<u>(29,863)</u>
			<u>(21,603)</u>
6,775,704	72,696	6,848,400	-
4,500,902	-	4,500,902	-
316,073	-	316,073	-
46,798	-	46,798	-
1,875,392	-	1,875,392	-
655,363	-	655,363	1,145
50,009	81,363	131,372	6,560
35,032	-	35,032	224
47,503	-	47,503	-
-	-	-	61,518
117,933	79,726	197,659	827
-	3,276	3,276	-
<u>(529,455)</u>	<u>529,455</u>	<u>-</u>	<u>-</u>
<u>13,891,254</u>	<u>766,516</u>	<u>14,657,770</u>	<u>70,274</u>
<u>1,292,436</u>	<u>453,350</u>	<u>1,745,786</u>	<u>48,671</u>
<u>21,373,312</u>	<u>3,241,463</u>	<u>24,614,775</u>	<u>728,145</u>
<u>\$ 22,665,748</u>	<u>\$ 3,694,813</u>	<u>\$ 26,360,561</u>	<u>\$ 776,816</u>

STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUES</b>				
Contributions	\$ 41,859	\$ 153,202	\$ 52,425	\$ 247,486
Rental revenue	41,468	-	-	41,468
Sales and services	43,712	14	-	43,726
Net investment income	27,248	69,066	49,111	145,425
Grants and aid	17,417	-	-	17,417
Other revenues	25,456	4,480	411	30,347
Net assets released from restrictions	200,850	(176,558)	(24,292)	-
Total Revenues	398,010	50,204	77,655	525,869
<b>EXPENSES</b>				
Program services:				
Payments to Universities	181,909	-	-	181,909
Leasing related expenses	9,298	-	-	9,298
Payments on behalf of Universities	16,245	-	-	16,245
Other program services	7,983	-	-	7,983
Management and general expenses	83,188	-	-	83,188
Fundraising expenses	12,322	-	-	12,322
Interest	10,871	-	-	10,871
Depreciation and amortization	13,152	-	-	13,152
Other expenses	9,619	-	-	9,619
Total Expenses	344,587	-	-	344,587
Increase in Net Assets, before restructure transfer and loss	53,423	50,204	77,655	181,282
Restructure transfer	24,655	289,496	432,262	746,413
Loss on bond refunding	(998)	-	-	(998)
Increase in Net Assets	77,080	339,700	509,917	926,697
Net Assets - Beginning, as restated	40,646	222,841	562,147	825,634
Transfers	244	(1,559)	1,315	-
Net Assets - Ending	\$ 117,970	\$ 560,982	\$ 1,073,379	\$ 1,752,331

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 16. J.

STATE OF ARIZONA  
**BALANCE SHEET**  
GOVERNMENTAL FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
<b>ASSETS</b>					
Cash	\$ 1,804	\$ -	\$ 28	\$ 2,299	\$ 4,131
Cash and pooled investments with State Treasurer	1,594,904	222,011	108,690	904,849	2,830,454
Collateral investment pool	10,030	30	72,583	2,644	85,287
Receivables, net of allowances:					
Taxes	416,961	83,972	-	87,896	588,829
Interest	351	-	155,409	-	155,760
Loans and notes	34,602	3,026	112,640	-	150,268
Other	93,463	7,112	3,102	27,211	130,888
Due from U.S. Government	917,419	65,689	-	24,122	1,007,230
Due from local governments	136,265	-	-	-	136,265
Due from others	243,532	-	-	-	243,532
Due from other Funds	18,971	24,469	-	93,642	137,082
Inventories, at cost	10,589	40	-	-	10,629
Restricted assets:					
Cash	28	-	-	-	28
Cash and pooled investments with State Treasurer	19,552	1,011,893	-	437,452	1,468,897
Cash held by trustee	598	6,902	-	34,619	42,119
Investments	3,349	-	-	-	3,349
Securities held in escheat	62,441	-	-	-	62,441
Endowment investments	-	-	5,587,711	-	5,587,711
Other	-	-	-	836	836
Total Assets	<u>\$ 3,564,859</u>	<u>\$ 1,425,144</u>	<u>\$ 6,040,163</u>	<u>\$ 1,615,570</u>	<u>\$ 12,645,736</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and other current liabilities	\$ 326,636	\$ 76,383	\$ 5,578	\$ 53,568	\$ 462,165
Accrued liabilities	583,483	10,515	212	66,133	660,343
Obligations under securities loan agreements	10,030	30	72,583	2,644	85,287
Tax refunds payable	167	16,172	-	-	16,339
Due to U.S. Government	427,568	-	-	-	427,568
Due to local governments	1,161,019	144,346	-	144,008	1,449,373
Due to component units	3,150	-	-	-	3,150
Due to others	541,707	-	1	13,589	555,297
Due to other Funds	91,986	11,243	13,433	13,092	129,754
Unearned revenue	77,174	1,733	108,270	1,504	188,681
Total Liabilities	<u>3,222,920</u>	<u>260,422</u>	<u>200,077</u>	<u>294,538</u>	<u>3,977,957</u>
Deferred Inflows of Resources:					
Unavailable revenue	<u>307,547</u>	<u>40,958</u>	<u>255,258</u>	<u>480</u>	<u>604,243</u>
Fund Balances:					
Nonspendable	9,990	40	5,603,580	-	5,613,610
Restricted	189,321	844,672	-	635,034	1,669,027
Committed	93,343	279,052	-	685,518	1,057,913
Unassigned	(258,262)	-	(18,752)	-	(277,014)
Total Fund Balances	<u>34,392</u>	<u>1,123,764</u>	<u>5,584,828</u>	<u>1,320,552</u>	<u>8,063,536</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,564,859</u>	<u>\$ 1,425,144</u>	<u>\$ 6,040,163</u>	<u>\$ 1,615,570</u>	<u>\$ 12,645,736</u>

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

STATE OF ARIZONA  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 JUNE 30, 2017  
 (Expressed in Thousands)

**Total fund balances - governmental funds** \$ 8,063,536

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 23,647,078

Certain revenues collected after year-end are not available soon enough to pay for current period expenditures and, therefore, are reported as unavailable deferred inflows of resources in the governmental funds. 604,243

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. (363,983)

The allocation of the internal service fund accumulated net gain results in an amount due to business-type activities, which is not reported in the governmental funds. (59,466)

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

Loss on refunding of debt	139,781	
Related to pensions	<u>865,941</u>	1,005,722

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

Net OPEB	(153,177)	
Net pension	(4,046,033)	
Revenue bonds	(2,640,330)	
Grant anticipation notes	(129,475)	
Certificates of participation	(1,804,395)	
Accrued interest on certificates of participation	(23,786)	
Capital leases	(212,818)	
Notes payable	(22,179)	
Premium on debt	(516,456)	
Compensated absences	(140,303)	
Pollution remediation obligations	(6,523)	
Accrued relocation costs	(31,863)	
Claims and judgments	<u>(11,265)</u>	(9,738,603)

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. (100,818)

Deferred inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the governmental funds. (391,961)

**Net position of governmental activities** \$ 22,665,748

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, 2017  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
<b>REVENUES</b>					
Taxes:					
Sales	\$ 5,855,752	\$ 274,553	\$ -	\$ 602,379	\$ 6,732,684
Income	4,473,790	-	-	-	4,473,790
Tobacco	63,128	-	-	252,945	316,073
Property	36,433	10,365	-	-	46,798
Motor vehicle and fuel	7,627	1,715,843	-	151,922	1,875,392
Other	544,762	-	-	110,601	655,363
Intergovernmental	13,759,678	832,094	-	195,552	14,787,324
Licenses, fees, and permits	134,804	130,422	2,590	306,051	573,867
Hospital and nursing facility assessments	-	-	-	292,049	292,049
Earnings on investments	37,130	3,298	528,661	70,628	639,717
Sales and charges for services	125,645	19,148	23,202	61,104	229,099
Fines, forfeitures, and penalties	29,140	-	-	107,021	136,161
Gaming	6,483	-	-	82,827	89,310
Tobacco settlement	101,522	-	-	-	101,522
Proceeds from sale of trust land	-	-	179,028	-	179,028
Other	91,093	1,852	17,718	56,566	167,229
Total Revenues	<u>25,266,987</u>	<u>2,987,575</u>	<u>751,199</u>	<u>2,289,645</u>	<u>31,295,406</u>
<b>EXPENDITURES</b>					
Current:					
General government	661,456	-	-	125,828	787,284
Health and welfare	15,096,388	-	6,918	710,209	15,813,515
Inspection and regulation	40,468	-	-	119,894	160,362
Education	5,328,993	-	220,812	814,211	6,364,016
Protection and safety	1,175,700	-	4,834	306,647	1,487,181
Transportation	28,773	697,201	-	6,055	732,029
Natural resources	56,927	-	2,748	138,892	198,567
Intergovernmental revenue sharing	2,037,292	1,312,164	-	42	3,349,498
Debt service:					
Principal	154,154	20,328	-	465,297	639,779
Interest and other fiscal charges	40,339	770	-	188,823	229,932
Capital outlay	124,965	610,202	58	158,985	894,210
Total Expenditures	<u>24,745,455</u>	<u>2,640,665</u>	<u>235,370</u>	<u>3,034,883</u>	<u>30,656,373</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>521,532</u>	<u>346,910</u>	<u>515,829</u>	<u>(745,238)</u>	<u>639,033</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	246,779	4,991	-	614,471	866,241
Transfers out	(922,658)	(273,873)	(27,929)	(79,071)	(1,303,531)
Proceeds from sale of capital assets	-	1,294	-	-	1,294
Capital lease and installment purchase contracts	39,656	-	-	3,592	43,248
Certificates of participation issued	-	-	-	119,880	119,880
Refunding bonds issued	-	-	-	312,900	312,900
Refunding GANs issued	-	-	-	90,410	90,410
Payment to refunded bond escrow agent	-	-	-	(389,350)	(389,350)
Payment to refunded GAN escrow agent	-	-	-	(112,128)	(112,128)
Premium on debt issued	-	-	-	117,390	117,390
Total Other Financing Sources (Uses)	<u>(636,223)</u>	<u>(267,588)</u>	<u>(27,929)</u>	<u>678,094</u>	<u>(253,646)</u>
Net Change in Fund Balances	<u>(114,691)</u>	<u>79,322</u>	<u>487,900</u>	<u>(67,144)</u>	<u>385,387</u>
Fund Balances - Beginning	149,083	1,044,442	5,096,928	1,387,696	7,678,149
Fund Balances - Ending	<u>\$ 34,392</u>	<u>\$ 1,123,764</u>	<u>\$ 5,584,828</u>	<u>\$ 1,320,552</u>	<u>\$ 8,063,536</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, 2017  
 (Expressed in Thousands)

**Net change in fund balances - total governmental funds** \$ 385,387

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

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

Capital outlay	894,210	
Infrastructure adjustment	(44,694)	
Depreciation expense	<u>(134,821)</u>	714,695

The net expense of the internal service funds allocable to governmental activities is included in the Statement of Activities. (107,611)

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

Sales taxes	43,020	
Income taxes	27,112	
Tobacco settlement	(10,500)	
Operating grants	(148,209)	
Capital grants	40,669	
Other revenue	<u>(1,060)</u>	(48,968)

Trust land sales are financed with long-term mortgages. In the Statement of Activities, the gain on sale of trust land is reported, whereas in the governmental funds, the proceeds from the collection of mortgage payments are reported. In fiscal year 2017, mortgage payments received exceeded gains resulting from current year land sales. In addition, accrued interest on land sales contracts is reported as revenues in the Statement of Activities but are not reported as revenues in the governmental funds.

Excess of mortgage receipts over gain on sale of land	(131,525)	
Accrued interest on land sales' contracts	<u>(15,258)</u>	(146,783)

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

Pension contributions made during fiscal year 2017	274,029	
Pension expense and pension-related grant expense	<u>(419,765)</u>	(145,736)

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, 2017**  
 (Expressed in Thousands)

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

AHCCCS accrued programmatic costs	192,022	
Compensated absences	22,412	
Pollution remediation obligations	18,637	
Interest on long-term obligations	(1,260)	
OPEB obligations	(65,501)	
Other expenses	(4,006)	162,304
	<u>          </u>	

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

Refunding bonds issued	(312,900)	
Refunding GANs issued	(90,410)	
Certificates of participation issued	(119,880)	
Premium on debt issued	(117,390)	(640,580)
	<u>          </u>	

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

Debt service principal	639,779	
Payment to refunded bond escrow agent	389,350	
Payment to refunded GAN escrow agent	112,128	
Debt premium/discount amortization	53,048	
Amortization of deferred losses on refundings	(14,955)	1,179,350
	<u>          </u>	

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

Governmental funds capital leases and installment purchase contracts	(43,248)	
Internal service funds vehicle purchases financed by governmental fund leases	(16,374)	(59,622)
	<u>          </u>	

**Change in net position of governmental activities** \$ 1,292,436

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

STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 319,985	\$ 17,968	\$ 337,953	\$ -
Cash with U.S. Treasury	-	571,469	571,469	-
Cash and pooled investments with State Treasurer	99,207	108,952	208,159	278,672
Restricted cash and pooled investments with State Treasurer	-	59,951	59,951	-
Collateral investment pool	-	5,555	5,555	-
Short-term investments	228,636	200,435	429,071	-
Receivables, net of allowances:				
Taxes	-	94,108	94,108	-
Interest	991	1,730	2,721	-
Loans and notes	2,882	-	2,882	-
Other	206,412	26,301	232,713	38,980
Due from U.S. Government	65,705	-	65,705	-
Due from other Funds	39,927	177	40,104	1,711
Inventories, at cost	7,695	10,682	18,377	2,335
Other current assets	18,013	166	18,179	15,154
Total Current Assets	<u>989,453</u>	<u>1,097,494</u>	<u>2,086,947</u>	<u>336,852</u>
Noncurrent Assets:				
Restricted assets:				
Cash	4,483	-	4,483	-
Cash held by trustee	315,065	-	315,065	-
Investments held by trustee	464,372	-	464,372	-
Receivables, net of allowances:				
Loans and notes	32,004	-	32,004	-
Investments	1,325,839	354,089	1,679,928	-
Endowment investments	448,048	-	448,048	-
Other noncurrent assets	4,190	9,478	13,668	-
Capital assets:				
Land and other non-depreciable	867,042	5,859	872,901	-
Buildings, equipment, and other depreciable, net of accumulated depreciation	4,484,095	22,405	4,506,500	86,321
Total Noncurrent Assets	<u>7,945,138</u>	<u>391,831</u>	<u>8,336,969</u>	<u>86,321</u>
Total Assets	<u>8,934,591</u>	<u>1,489,325</u>	<u>10,423,916</u>	<u>423,173</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	296,871	7,883	304,754	11,265
Loss on debt refundings	77,935	-	77,935	-
Interest rate swap	15,379	-	15,379	-
Total Deferred Outflows of Resources	<u>390,185</u>	<u>7,883</u>	<u>398,068</u>	<u>11,265</u>

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

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2017**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 191,473	\$ 11,905	\$ 203,378	\$ 124,191
Payable for securities purchased	-	1,839	1,839	-
Accrued liabilities	64,136	37,070	101,206	1,471
Obligations under securities loan agreements	-	5,555	5,555	-
Due to U.S. Government	-	34	34	-
Due to local governments	-	5	5	-
Due to others	25,123	46,718	71,841	-
Due to other Funds	-	48,370	48,370	773
Unearned revenue	191,991	150	192,141	-
Current portion of accrued insurance losses	-	32,283	32,283	69,184
Current portion of long-term debt	246,348	-	246,348	917
Current portion of other long-term liabilities	19,752	1,659	21,411	13,723
Total Current Liabilities	<u>738,823</u>	<u>185,588</u>	<u>924,411</u>	<u>210,259</u>
Noncurrent Liabilities:				
Accrued insurance losses	-	380,468	380,468	372,433
Funds held for others	2,578	-	2,578	-
Net OPEB obligation	99,684	2,559	102,243	2,479
Net pension liability	1,434,814	41,822	1,476,636	55,144
Long-term debt	3,782,954	-	3,782,954	1,349
Derivative instrument - interest rate swap	15,379	-	15,379	-
Other long-term liabilities	99,495	21	99,516	148,125
Total Noncurrent Liabilities	<u>5,434,904</u>	<u>424,870</u>	<u>5,859,774</u>	<u>579,530</u>
Total Liabilities	<u>6,173,727</u>	<u>610,458</u>	<u>6,784,185</u>	<u>789,789</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	174,259	6,637	180,896	8,632
Resources received before time requirements met	220,206	-	220,206	-
Gain on debt refundings	1,350	-	1,350	-
Total Deferred Inflows of Resources	<u>395,815</u>	<u>6,637</u>	<u>402,452</u>	<u>8,632</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,851,637	28,264	1,879,901	86,321
Restricted for:				
Unemployment Compensation	-	626,344	626,344	-
Capital projects	7,377	-	7,377	-
Debt service	30,902	-	30,902	-
Universities fund:				
Expendable	366,697	-	366,697	-
Nonexpendable	241,502	-	241,502	-
Loans and other financial assistance:				
Expendable	-	59,951	59,951	-
Other	-	112,445	112,445	-
Unrestricted (deficit)	<u>257,119</u>	<u>53,109</u>	<u>310,228</u>	<u>(450,304)</u>
Total Net Position	<u>\$ 2,755,234</u>	<u>\$ 880,113</u>	<u>\$ 3,635,347</u>	<u>\$ (363,983)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>59,466</u>	
Net position of business-type activities			<u>\$ 3,694,813</u>	

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

STATE OF ARIZONA  
**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>OPERATING REVENUES</b>				
Sales and charges for services:				
Student tuition and fees, net of scholarship allowances of \$648,333	\$ 2,142,483	\$ -	\$ 2,142,483	\$ -
Auxiliary enterprises, net of scholarship allowances of \$29,710	432,740	-	432,740	-
Educational department	133,296	-	133,296	-
Other	-	957,531	957,531	1,014,722
Unemployment assessments	-	495,927	495,927	-
Workers' compensation assessments	-	486	486	-
Intergovernmental	552,624	4,451	557,075	-
Nongovernmental grants and contracts	263,263	-	263,263	-
Fines, forfeitures, and penalties	-	1,896	1,896	-
Settlement income	-	5,846	5,846	-
Other	57,921	1,554	59,475	3,675
Total Operating Revenues	<u>3,582,327</u>	<u>1,467,691</u>	<u>5,050,018</u>	<u>1,018,397</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and benefits	1,276,192	1,002,853	2,279,045	896,272
Scholarships and fellowships	280,070	-	280,070	-
Personal services	2,859,069	40,885	2,899,954	42,759
Contractual services	-	28,764	28,764	35,473
Depreciation and amortization	297,969	2,623	300,592	17,648
Insurance	-	541	541	65,240
Other	-	10,774	10,774	12,972
Total Operating Expenses	<u>4,713,300</u>	<u>1,086,440</u>	<u>5,799,740</u>	<u>1,070,364</u>
Operating Income (Loss)	<u>(1,130,973)</u>	<u>381,251</u>	<u>(749,722)</u>	<u>(51,967)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Share of State sales tax revenues	72,696	-	72,696	-
Intergovernmental	322,002	-	322,002	-
Gifts and donations	309,959	-	309,959	-
Gain (loss) on sale of capital assets	(53)	64	11	1,222
Investment income	47,243	42,489	89,732	30
Endowment earnings on investments	27,334	-	27,334	-
Other non-operating revenue	17,747	2,493	20,240	35
Distributions	-	(15,029)	(15,029)	-
Interest expense	(148,532)	-	(148,532)	-
Other non-operating expense	(7,610)	(4,001)	(11,611)	(9,831)
Total Non-Operating Revenues (Expenses)	<u>640,786</u>	<u>26,016</u>	<u>666,802</u>	<u>(8,544)</u>
Income (Loss) Before Contributions, and Transfers	<u>(490,187)</u>	<u>407,267</u>	<u>(82,920)</u>	<u>(60,511)</u>
Capital grants and contributions	27,368	-	27,368	21,236
Contributions to permanent endowments	3,276	-	3,276	-
Transfers in	719,506	-	719,506	19
Transfers out	-	(190,051)	(190,051)	(92,184)
Change in Net Position	<u>259,963</u>	<u>217,216</u>	<u>477,179</u>	<u>(131,440)</u>
Total Net Position - Beginning, as restated	<u>2,495,271</u>	<u>662,897</u>	<u>3,158,168</u>	<u>(232,543)</u>
Total Net Position - Ending	<u>\$ 2,755,234</u>	<u>\$ 880,113</u>	<u>\$ 3,635,347</u>	<u>\$ (363,983)</u>
Change in net position of enterprise funds			\$ 477,179	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(23,829)	
Change in net position of business-type activities			<u>\$ 453,350</u>	

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 9. A.

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STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ -	\$ 491,431	\$ 491,431	\$ -
Receipts from assessments	-	498,665	498,665	-
Receipts from student tuition and fees	2,113,431	-	2,113,431	-
Receipts from sales and services of auxiliary enterprises	433,471	-	433,471	-
Receipts from sales and services of educational departments	123,285	-	123,285	-
Receipts from interfund services / premiums	-	-	-	1,014,103
Receipts from grants and contracts	823,264	4,451	827,715	-
Receipts from student loans collected	6,813	-	6,813	-
Receipts from settlement income	-	5,846	5,846	-
Payments to suppliers, prize winners, claimants, or insurance companies	(1,250,678)	(528,741)	(1,779,419)	(1,011,146)
Payments to employees	(2,760,783)	(56,141)	(2,816,924)	(44,803)
Payments to retirees	-	-	-	(15,400)
Payments for scholarships and fellowships	(286,366)	-	(286,366)	-
Payments for student loans issued	(7,070)	-	(7,070)	-
Other receipts	53,112	5,578	58,690	3,434
Other payments	-	-	-	(9,692)
Net Cash Provided (Used) by Operating Activities	(751,521)	421,089	(330,432)	(63,504)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Receipts from custodial funds	177,620	-	177,620	-
Receipts from share of State sales tax	72,465	-	72,465	-
Receipts from grants and contributions	1,696,395	-	1,696,395	-
Transfers from other Funds	642,165	-	642,165	19
Custodial funds disbursed	(186,049)	-	(186,049)	-
Grants and contributions disbursed	(1,054,348)	-	(1,054,348)	-
Distributions	-	(15,029)	(15,029)	-
Transfers to other Funds	-	(205,323)	(205,323)	(92,184)
Other receipts	12,087	-	12,087	-
Net Cash Provided (Used) by Non-capital Financing Activities	1,360,335	(220,352)	1,139,983	(92,165)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	246	94	340	2,502
Proceeds from capital debt, installment purchase contracts, and capital leases	495,428	-	495,428	-
Receipts from federal subsidy	18,950	-	18,950	-
Receipts from capital grants and contributions	41,544	-	41,544	-
Transfers from other Funds	52,375	-	52,375	-
Acquisition and construction of capital assets	(605,541)	(2,205)	(607,746)	(834)
Interest paid on capital debt, installment purchase contracts, and capital leases	(154,366)	-	(154,366)	(139)
Principal paid on capital debt, installment purchase contracts, and capital leases	(158,041)	-	(158,041)	(2,331)
Net Cash (Used) by Capital and Related Financing Activities	(309,405)	(2,111)	(311,516)	(802)

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

(Continued)

STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	ACTIVITIES - INTERNAL SERVICE FUNDS
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	506,110	506,607	1,012,717	-
Interest and dividends from investments	40,980	19,098	60,078	29
Change in cash collateral received from securities lending transactions	-	(22,580)	(22,580)	-
Purchase of investments	(750,397)	(503,761)	(1,254,158)	-
Net Cash Provided (Used) by Investing Activities	(203,307)	(636)	(203,943)	29
Net Increase (Decrease) in Cash and Cash Equivalents	96,102	197,990	294,092	(156,442)
Cash and Cash Equivalents - Beginning, as restated	642,638	565,905	1,208,543	435,114
Cash and Cash Equivalents - Ending	\$ 738,740	\$ 763,895	\$ 1,502,635	\$ 278,672

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

Operating income (loss)	\$ (1,130,973)	\$ 381,251	\$ (749,722)	\$ (51,967)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	297,969	2,623	300,592	17,648
Provision for uncollectible accounts	-	32	32	-
Miscellaneous income (expense)	(7,510)	928	(6,582)	(9,754)
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	(12,875)	10,260	(2,615)	(5,660)
Decrease in due from U.S. Government	-	73	73	5,192
(Increase) in due from other Funds	-	(2)	(2)	(195)
(Increase) decrease in inventories, at cost	411	(52)	359	224
(Increase) decrease in other assets	(3,494)	179	(3,315)	(444)
(Increase) in deferred pension outflows of resources	(123,773)	(2,486)	(126,259)	(4,101)
Increase (decrease) in accounts payable	20,949	(238)	20,711	(20,049)
Increase (decrease) in accrued liabilities	9,623	(5,511)	4,112	(98)
(Decrease) in due to U.S. Government	-	(1)	(1)	-
Increase (decrease) in due to other Funds	-	(1)	(1)	28
(Decrease) in due to others	-	(1,033)	(1,033)	-
Increase in unearned revenue	16,003	-	16,003	-
Increase in accrued insurance losses	-	32,211	32,211	1,037
Increase in net OPEB obligation	43,852	1,095	44,947	1,073
Increase (decrease) in net pension liability	77,248	(887)	76,361	(2,185)
Increase (decrease) in other liabilities	-	(85)	(85)	2,028
Increase in deferred pension inflows of resources	61,049	2,733	63,782	3,719
Net Cash Provided (Used) by Operating Activities	\$ (751,521)	\$ 421,089	\$ (330,432)	\$ (63,504)

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

Contribution of capital assets from other Funds	\$ -	\$ -	\$ -	\$ 21,236
Gifts and conveyances of capital assets	242	-	242	-
(Loss) on disposal of capital assets, net	(6,716)	-	(6,716)	-
Increase in fair value of investments	5,810	19,119	24,929	-
Increase in fair value of investments held by trustee	29,042	-	29,042	-
Amortization of bond discount	(3,192)	-	(3,192)	-
Amortization of bond premium	22,549	-	22,549	-
Amortization of refunding loss	(10,426)	-	(10,426)	-
Refinancing long-term debt	88,690	-	88,690	-
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ 125,999	\$ 19,119	\$ 145,118	\$ 21,236

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 9. A.

STATE OF ARIZONA  
**STATEMENT OF FIDUCIARY NET POSITION**  
 FIDUCIARY FUNDS  
 JUNE 30, 2017  
 (Expressed in Thousands)

	PENSION AND OTHER		
	EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUST FUNDS	AGENCY FUNDS
<b>ASSETS</b>			
Cash	\$ 286,048	\$ -	\$ 10,752
Cash and pooled investments with State Treasurer	-	2,150	78,437
Receivables, net of allowances:			
Accrued interest and dividends	57,736	2,207	2
Securities sold	23,831	-	-
Futures contracts	19,698	-	-
Contributions	84,296	-	-
Court fees	775	-	-
Due from other Funds	41,445	-	-
Other	19,867	-	7
Total receivables	<u>247,648</u>	<u>2,207</u>	<u>9</u>
Investments, at fair value:			
Short-term investments	859,724	-	-
Fixed income securities	10,583,952	3,268,819	-
Corporate stocks	24,476,517	-	-
Multi-asset	1,907,369	-	-
Real assets	937,158	-	-
Real estate	4,271,890	-	-
Private equity	1,288,392	-	-
Private credit	1,185,235	-	-
Collateral investment pool	794,155	664	-
Other investments	1,294,056	-	-
Total investments	<u>47,598,448</u>	<u>3,269,483</u>	<u>-</u>
Due from others	-	-	81,500
Custodial securities in safekeeping	-	-	564,406
Prepaid benefits	243,283	-	-
Property and equipment, net of accumulated depreciation	<u>3,811</u>	<u>-</u>	<u>-</u>
Total Assets	<u>48,379,238</u>	<u>3,273,840</u>	<u>735,104</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	<u>1,684</u>	<u>-</u>	<u>-</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	59,454	-	-
Payable for securities purchased	28,221	4,649	-
Management fee payable	-	165	-
Obligation under securities loan agreements	794,155	664	-
Futures contracts payable	14,473	-	-
Due to local governments	-	-	10,475
Due to others	-	-	724,629
Due to other Funds	41,445	-	-
Net pension liability	<u>7,083</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>944,831</u>	<u>5,478</u>	<u>735,104</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	<u>876</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>			
Held in trust for:			
Pension benefits	45,084,197	-	-
Other post-employment benefits	2,351,018	-	-
Pool participants	-	3,268,362	-
Total Net Position	<u>\$ 47,435,215</u>	<u>\$ 3,268,362</u>	<u>\$ -</u>

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



STATE OF ARIZONA  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	PENSION AND OTHER	
	EMPLOYEE BENEFIT	INVESTMENT
	TRUST FUNDS	TRUST FUNDS
<b>ADDITIONS:</b>		
Member contributions	\$ 1,318,588	\$ -
Employer contributions	1,891,398	-
Non-employer entity contributions	22,420	-
Member purchase of service credit	32,223	-
Court fees	8,647	-
Investment income:		
Net increase (decrease) in fair value		
of investments	5,327,332	(5,518)
Interest income	130,551	26,578
Dividends	318,346	-
Other investment income	95,031	-
Securities lending income	10,434	154
Total investment income	<u>5,881,694</u>	<u>21,214</u>
Less investment expenses:		
Investment activity expenses	263,801	1,748
Securities lending expenses	1,817	103
Net investment income	<u>5,616,076</u>	<u>19,363</u>
Capital share and individual account transactions:		
Shares sold	-	4,830,719
Reinvested interest income	-	23,946
Shares redeemed	-	(4,563,115)
Net capital share and individual account transactions	<u>-</u>	<u>291,550</u>
Other additions	2,240	-
Total Additions	<u>8,891,592</u>	<u>310,913</u>
<b>DEDUCTIONS:</b>		
Retirement, disability, and survivor benefits	3,923,190	-
Health insurance subsidy	117,109	-
Refunds to withdrawing members, including interest	295,124	-
Administrative expense	39,791	-
Dividends to investors	-	18,805
Other deductions	3,340	-
Total Deductions	<u>4,378,554</u>	<u>18,805</u>
Change in net position restricted in trust for:		
Pension benefits	4,340,661	-
Other post-employment benefits	172,377	-
Pool participants	-	292,108
Net Position - Beginning	<u>42,922,177</u>	<u>2,976,254</u>
Net Position - Ending	<u>\$ 47,435,215</u>	<u>\$ 3,268,362</u>

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
 COMPONENT UNITS  
 JUNE 30, 2017  
 (Expressed in Thousands)

	ARIZONA FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
<b>ASSETS</b>			
Current Assets:			
Cash	\$ -	\$ 28,324	\$ 28,324
Cash and pooled investments with State Treasurer	358,230	179,050	537,280
Cash held by trustee	953	-	953
Restricted investments held by trustee	-	7,847	7,847
Receivables, net of allowances:			
Interest	7,845	-	7,845
Loans and notes	58,456	1,341	59,797
Other	5,762	7,302	13,064
Due from primary government	-	3,150	3,150
Other current assets	-	600	600
Total Current Assets	<u>431,246</u>	<u>227,614</u>	<u>658,860</u>
Noncurrent Assets:			
Restricted assets:			
Cash and pooled investments with State Treasurer	11,965	-	11,965
Cash held by trustee	-	16,927	16,927
Investments held by trustee	-	1,641	1,641
Loans and notes receivable, net of allowances	751,950	14,251	766,201
Investments	98,371	-	98,371
Other noncurrent assets	-	635	635
Capital assets:			
Land and other non-depreciable	-	19,140	19,140
Buildings, equipment, and other depreciable, net of accumulated depreciation	-	34,093	34,093
Total Noncurrent Assets	<u>862,286</u>	<u>86,687</u>	<u>948,973</u>
Total Assets	<u>1,293,532</u>	<u>314,301</u>	<u>1,607,833</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pensions	339	134	473
Loss on debt refundings	46,842	6,775	53,617
Future benefits and advances	-	20,648	20,648
Total Deferred Outflows of Resources	<u>47,181</u>	<u>27,557</u>	<u>74,738</u>

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

(Continued)

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
 COMPONENT UNITS  
 JUNE 30, 2017  
 (Expressed in Thousands)

	ARIZONA FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts payable and other current liabilities	\$ -	\$ 14,150	\$ 14,150
Accrued liabilities	7,129	651	7,780
Unearned revenue	-	975	975
Current portion of long-term debt	41,025	13,530	54,555
Current portion of other long-term liabilities	95	-	95
Total Current Liabilities	<u>48,249</u>	<u>29,306</u>	<u>77,555</u>
Noncurrent Liabilities:			
Unearned revenue	2,263	-	2,263
Net pension liability	1,872	741	2,613
Long-term debt	652,453	170,268	822,721
Total Noncurrent Liabilities	<u>656,588</u>	<u>171,009</u>	<u>827,597</u>
Total Liabilities	<u>704,837</u>	<u>200,315</u>	<u>905,152</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pensions	326	277	603
<b>NET POSITION</b>			
Net investment in capital assets	-	48,786	48,786
Restricted for:			
Debt service	83,439	17,210	100,649
Loans and other financial assistance	551,431	20,877	572,308
Other	-	15,085	15,085
Unrestricted	680	39,308	39,988
Total Net Position	<u>\$ 635,550</u>	<u>\$ 141,266</u>	<u>\$ 776,816</u>

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
 COMPONENT UNITS  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	<u>PROGRAM REVENUES</u>		
	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>
Arizona Finance Authority	\$ 33,268	\$ 27,328	\$ 14,200
Other Component Units	67,403	36,124	1,416
Total	<u>\$ 100,671</u>	<u>\$ 63,452</u>	<u>\$ 15,616</u>

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

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

	<u>ARIZONA FINANCE AUTHORITY</u>	<u>OTHER COMPONENT UNITS</u>	<u>TOTAL</u>
\$	8,260	\$ -	\$ 8,260
	-	(29,863)	(29,863)
	-	1,145	1,145
	5,421	1,139	6,560
	-	224	224
	-	61,518	61,518
	-	827	827
	<u>13,681</u>	<u>34,990</u>	<u>48,671</u>
	<u>621,869</u>	<u>106,276</u>	<u>728,145</u>
\$	<u>635,550</u>	\$ <u>141,266</u>	\$ <u>776,816</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2017  
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY ENTERPRISE PARTNERS	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
<b>ASSETS</b>					
Cash and cash equivalent investments	\$ 13,414	\$ 29,420	\$ 2,234	\$ 32,982	\$ 78,050
Receivables:					
Pledges receivable, net of allowances	137,597	18,159	-	51,846	207,602
Other receivables	7,756	-	117	35,334	43,207
Total receivables	145,353	18,159	117	87,180	250,809
Investments:					
Investments in securities	781,227	837,568	16,923	198,044	1,833,762
Other investments	92,054	-	-	14,399	106,453
Total investments	873,281	837,568	16,923	212,443	1,940,215
Net direct financing leases	21,930	-	38,557	4,889	65,376
Property and equipment, net of accumulated depreciation	13,522	2,190	132,334	31,974	180,020
Other assets	29,797	10,566	10	9,573	49,946
Total Assets	1,097,297	897,903	190,175	379,041	2,564,416
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	11,950	3,273	7,715	4,536	27,474
Liability under endowment trust agreements	130,118	208,899	-	31,712	370,729
Long-term debt	99,855	-	236,602	10,169	346,626
Deferred revenue	-	-	-	25,418	25,418
Other liabilities	27,445	7,692	-	6,701	41,838
Total Liabilities	269,368	219,864	244,317	78,536	812,085
<b>NET ASSETS</b>					
Permanently restricted	451,095	538,649	-	83,635	1,073,379
Temporarily restricted	312,010	124,381	-	124,591	560,982
Unrestricted (deficit)	64,824	15,009	(54,142)	92,279	117,970
Total Net Assets	\$ 827,929	\$ 678,039	\$ (54,142)	\$ 300,505	\$ 1,752,331

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, 2017  
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY ENTERPRISE PARTNERS	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
<b>REVENUES</b>					
Contributions	\$ 128,720	\$ 80,672	\$ -	\$ 38,094	\$ 247,486
Rental revenue	1,560	-	14,189	25,719	41,468
Sales and services	23,759	4,361	9,789	5,817	43,726
Net investment income	67,407	54,024	50	23,944	145,425
Grants and aid	-	-	-	17,417	17,417
Other revenues	4,699	9,439	8,003	8,206	30,347
Total Revenues	226,145	148,496	32,031	119,197	525,869
<b>EXPENSES</b>					
Program services:					
Payments to Universities	102,058	60,992	5,243	13,616	181,909
Leasing related expenses	-	-	-	9,298	9,298
Payments on behalf of Universities	-	11,205	-	5,040	16,245
Other program services	-	-	-	7,983	7,983
Management and general expenses	32,795	5,997	9,031	35,365	83,188
Fundraising expenses	-	7,608	-	4,714	12,322
Interest	1,551	-	9,074	246	10,871
Depreciation and amortization	558	-	11,788	806	13,152
Other expenses	7,667	-	48	1,904	9,619
Total Expenses	144,629	85,802	35,184	78,972	344,587
Increase (decrease) in Net Assets, before restructure transfer and loss	81,516	62,694	(3,153)	40,225	181,282
Restructure transfer	746,413	-	-	-	746,413
Loss on bond refunding	-	-	(998)	-	(998)
Increase (decrease) in Net Assets	827,929	62,694	(4,151)	40,225	926,697
Net Assets - Beginning, as restated	-	615,345	(49,991)	260,280	825,634
Net Assets - Ending	\$ 827,929	\$ 678,039	\$ (54,142)	\$ 300,505	\$ 1,752,331

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 16. J.

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

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

**A. REPORTING ENTITY**

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

***Component Units***

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

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

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

The Northern Arizona Capital Facilities Finance Corporation (NACFFC), the Thunderbird School of Global Management (Thunderbird), and the Arizona State University Athletic Facilities District (ASUAFD) are blended with the Universities financial statements. The NACFFC was established for the purpose of acquiring, developing, constructing, and operating student housing and other capital facilities and equipment for the use and benefit of Northern Arizona University's (NAU) students. The NACFFC's debt outstanding is expected to be repaid entirely or almost entirely with resources from the NAU. The Thunderbird primarily exists to benefit the Arizona State University (ASU) by providing a framework for global education programming. The ASUAFD was formed pursuant to the provisions of Arizona Revised Statutes (A.R.S.) Title 48, Chapter 26 and supports the ASU's efforts to construct, reconstruct, finance, furnish, maintain, and improve intercollegiate athletic facilities located on the ASU's property, including utilities, roads, parking areas or buildings necessary for full use of the athletic facilities.

The State reports the following component units as fiduciary funds:

The Arizona State Retirement System (ASRS) is a cost-sharing, multiple-employer, pension plan that benefits employees of the State and participating political subdivisions and school districts. The ASRS is administered in accordance with provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS is governed by a nine-member board that is appointed by the Governor and approved by the Senate to serve three-year terms. The State has the ability to impose its will on the ASRS as the State Legislature can modify the plan design and benefits. Additionally, per A.R.S. § 38-721, the State Legislature appropriates monies

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to pay for the administrative expenses of the ASRS. Complete financial statements may be obtained from the ASRS's administrative office at P.O. Box 33910, Phoenix, AZ 85067-3910, (602) 240-2000, or its website at [www.azasrs.gov](http://www.azasrs.gov).

The Public Safety Personnel Retirement System (PSPRS) is an agent, multiple-employer public employee retirement system that benefits public safety employees of certain state, county, and local governments. The PSPRS is jointly administered by the Board of Trustees and 232 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Board of Trustees, which was restructured in fiscal year 2017 from a seven-member board appointed by the Governor to a nine-member board, serve a fixed five-year term. Two board members are appointed by the President of the Senate, two are appointed by the Speaker of the House of Representatives, and five are appointed by the Governor. The State has the ability to impose its will on the PSPRS as the State Legislature can modify the plan design and benefits. Each eligible group participating in the system has a five-member local board. In general, all members serve a fixed four-year term. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at [www.psprs.com](http://www.psprs.com).

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

The Corrections Officer Retirement Plan (CORP) is a multiple-employer public employee retirement plan that benefits prison and jail employees of certain state, county, and local governments. CORP includes a cost-sharing multiple-employer plan for Administrative Office of the Courts (AOC) probation officers and an agent multiple-employer plan for all other members. The Board of Trustees of the PSPRS, 27 local boards of the CORP, and 15 local boards of the AOC administer the plans according to the provisions of A.R.S. Title 38, Chapter 5, Article 6. The State has the ability to impose its will on the CORP and AOC as the State Legislature can modify the plans design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at [www.psprs.com](http://www.psprs.com).

The State reports the following discretely presented component units:

*Major Component Unit:*

Arizona Finance Authority (AFA) – In the Fifty-second Legislature - Second Regular Session (2016), the State Legislature passed into law House Bill 2666 (HB2666) that established the AFA. The AFA was created to provide a one-stop shop for financing, supporting expanding and relocating businesses, communities' infrastructure needs, and first-time homebuyers. The Water Infrastructure Finance Authority (WIFA), the Greater Arizona Development Authority (GADA), and the Arizona Industrial Development Authority (AIDA) are established in the AFA by HB2666 for this purpose. Also enacted by this law, the powers, duties, and responsibilities of the Arizona Health Facilities Authority, the Arizona Housing Finance Authority, and the Arizona International Development Authority succeed to the AIDA. The AFA is governed by a five-member board of directors that also governs the AFA's WIFA, GADA, and AIDA. Members are appointed by the Governor and serve at the pleasure of the Governor; thus, the State has the ability to impose its will on AFA.

The AFA's 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 AFA's WIFA has also entered into an agreement with the U.S. Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The AFA's GADA provides cost-effective access to capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The AFA's AIDA provides cost-effective capital for private borrowers by reducing their financing costs through the issuance of tax-exempt bonds. Complete financial statements for AFA's WIFA and GADA may be obtained from the administrative office at 100 North 15<sup>th</sup> Avenue, Suite 103, Phoenix, AZ 85007, (602) 364-1323.

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*Non-major Component Units:*

Rio Nuevo Multipurpose Facilities District (Rio Nuevo) – The Rio Nuevo was established in 1999 with the passage of Proposition 400 by the voters in the Cities of Tucson and South Tucson. Under A.R.S. § 42-5031, the District can utilize tax incremental financing to help develop multipurpose facilities in the downtown Tucson area. The Rio Nuevo is governed by a nine-member board of directors, with five members appointed by the Governor, two members appointed by the President of the Senate, and the remaining two members appointed by the Speaker of the House of Representatives. All board of directors can be removed at will; thus, the State has the ability to impose its will on Rio Nuevo. Complete financial statements may be obtained from Rio Nuevo’s administrative office at 400 West Congress, Suite 152, Tucson, AZ 85701, (520) 623-7336, or its website at [www.rionuevo.org](http://www.rionuevo.org).

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

Arizona Commerce Authority (ACA) – The ACA is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State’s economic development objectives. The ACA is governed by a nineteen-member board of directors consisting of the Governor serving as Chairperson, a Chief Executive Officer, and seventeen members consisting of private sector business leaders serving staggered three-year terms, of which, nine are appointed by the Governor, four are appointed by the President of the Senate, and the other four are appointed by the Speaker of the House of Representatives. A financial benefit/burden relationship exists between the State and ACA as its primary funding source is the allocated State General Fund withholding tax revenues received in each fiscal year according to A.R.S. § 43-409. Complete financial statements may be obtained from the ACA’s administrative office at 118 North 7<sup>th</sup> Avenue, Suite 400, Phoenix, AZ 85007, (602) 845-1200.

Arizona Public School Credit Enhancement (APSCE) – The APSCE was established to assist achievement district schools in obtaining more favorable financing by guaranteeing the payment of principal and interest on guaranteed financings issued by or on behalf of achievement district schools. The APSCE is governed by a three-member board of directors that is established by A.R.S. § 15-2152 and consists of the Governor (or designee), State Treasurer (or designee), and the director of the Department of Administration (or designee). A financial benefit/burden relationship exists between the State and APSCE as monies were appropriated by the State Legislature for partial capitalization of its fund. Separate financial statements are not prepared for the APSCE.

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

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

Arizona State University Enterprise Partners (ASUEP) – The ASUEP’s resources are disbursed at the discretion of the ASUEP’s independent board of directors, in accordance with donor directions and the ASUEP policy. The directors of the ASUEP make all decisions regarding the ASUEP’s business affairs, including distributions made to the ASU. The economic resources held by the ASUEP are significant to the ASU and are entirely for the benefit of the ASU. Additional information can be found within Note 16.J.

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

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University of Arizona Foundation (U of A Foundation) – The U of A Foundation supports the U of A through various fund-raising activities and contributes funds to the U of A in support of various programs. The restricted resources held by the U of A Foundation are significant to the U of A and can only be used by, or for the benefit of, the U of A or its constituents.

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

Arizona State University Alumni Association (ASU Alumni Association) and Sun Angel Foundation – These two component units of the State affiliated with the Universities receive funds primarily through donations, dues, and/or affinity partners and contribute funds to the ASU for support of various programs. The economic resources held by these two component units are significant to the ASU and are entirely for the benefit of the ASU. Additional information can be found within Note 16.J.

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

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

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

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

University of Arizona Campus Research Corporation (CRC) – The CRC was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park (Tech Park) and related properties. The CRC currently leases from the U of A the remaining 67% of building space of the Tech Park not leased to the Arizona Research Park Authority. The CRC is responsible for assisting in the development of the presently undeveloped portions of the Tech Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

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

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

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

ASUEP, ACFFC, ASU Alumni Association, Sun Angel Foundation, ASU Research Park, and the ASU Prep – contact ASU Financial Services at (480) 965-3601

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

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

CRC – The University of Arizona Science and Technology Park, 9070 South Rita Road, Suite 1750, Tucson, AZ 85747

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

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

The financial statements of the ASUAFD are not available as of June 30, 2017, as there was no financial activity.

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 Office, 1303 E. University Blvd., Box 4, Tucson, AZ 85719-0521.

***Related Organizations***

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

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

***Joint Ventures***

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

**B. BASIS OF PRESENTATION**

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

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

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

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

Program revenues include:

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

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

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

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

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major enterprise fund:

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

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Additionally, the State reports the following fund types:

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

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

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

*Agency Funds* – account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State.

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

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

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

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

**D. DEPOSITS AND INVESTMENTS**

**1. Cash and Cash Equivalents**

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

- *Cash (not with State Treasurer)* – includes un-deposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit, and demand deposits with banking institutions other than the State Treasurer.
- *Cash with U.S. Treasury* – consists of unemployment compensation contributions from Arizona employers that are deposited in a trust fund maintained by the United States Treasury.
- *Cash and pooled investments with State Treasurer* – consists of a centralized management of most State cash resources maintained by the State Treasurer. From the perspective of the various State funds, the pool functions as both a cash management pool and a demand deposit account. The operations and investments of the State Treasurer’s pooled investments are described in Note 2.

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- *Cash held by trustee* – consists of capital projects and bond debt service funds invested by the trustee in accordance with the applicable financing indenture, generally limited to United States Treasury securities and other Federal agency securities, certificates of deposit, commercial paper, and money market funds.
- *Collateral investment pool* – consists of cash received as collateral on securities lending transactions and investments made with that cash. The State records the collateral received as an asset. A corresponding liability is also recorded for such securities lending transactions.

**2. Investment Valuation**

Investments maintained by the State Treasurer are reported at fair value using State Street prices, as determined by independent, industry recognized data vendors who provide values that are either exchange based or based on an evaluation bid. Equities are priced utilizing the primary exchange closing price. All bonds are priced using an evaluated bid, except securities with a remaining maturity of 90 days or less are priced at amortized cost (amortizing premium/accreting discount on a straight-line to maturity method). The evaluated bid is based on a compilation of primary observable market information or a broker quote in a non-active market.

The ASRS' publicly traded investments are reported at fair value determined by the custodial agents. The agents' determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. The derivative instruments held by the ASRS consist of futures, forward contracts, options, swaps, rights, and warrants. Fair value of derivative instruments are determined by the custodial agent and reported on the Fiduciary Statement of Net Position. The fair value of limited partnership investments are based on estimated current values and accepted industry practice. Fair value is based on estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable fair values.

For the PSPRS, the EORP, and the CORP, short term investments are reported at cost plus accrued interest.

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

**E. TAXES RECEIVABLE**

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

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2017. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2017, but not collected until the following month.

**F. INVENTORIES**

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

**G. CAPITAL ASSETS**

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

Most capital assets are depreciated over their estimated useful lives. However, the State reports most infrastructure assets using the modified approach, as provided by the GASB. Under this approach, rather than being depreciated, costs to maintain and preserve



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these assets are expensed. This approach is discussed further in the Required Supplementary Information portion of this report. The State has adopted a general policy for capitalization thresholds, depreciation, and estimated useful lives of capital assets. In addition, the State has approved alternative policies for some State agencies.

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

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

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

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

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

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

**H. DEFERRED OUTFLOWS OF RESOURCES**

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

**I. INVESTMENT EARNINGS**

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

**J. SCHOLARSHIP ALLOWANCES**

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

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**K. UNEARNED REVENUE**

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

**L. PENSIONS**

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

**M. COMPENSATED ABSENCES**

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

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

Some employees accumulate compensatory leave for time worked over 40 hours per week. An employee may accumulate up to 240 hours of compensatory leave (480 hours if working in a public safety activity or an emergency response activity). An employee who separates from State employment is paid for all unused compensatory leave at a rate of compensation not less than the higher of: (1) the average regular rate received by such employee during the last three years of employment or (2) the final regular rate received by such employee.

For sick leave policy, see Note 13.C.

**N. LONG-TERM OBLIGATIONS**

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Amounts due within one year are reported as current liabilities, and amounts due thereafter are reported as non-current liabilities. Premiums and discounts on revenue bonds and COPs are deferred and amortized over the life of the debt instrument using the straight-line method or the effective interest method. Bonds and COPs are reported net of the applicable premium or discount.

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

**O. DEFERRED INFLOWS OF RESOURCES**

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

**P. NET POSITION/FUND BALANCES**

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

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Net position is reported in three categories:

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

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

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

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

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

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

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

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

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

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

### **Budget Stabilization Fund**

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

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

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The budgets developed by the Governor and the Joint Legislative Budget Committee and submitted to the State Legislature at the start of each regular session include estimates of the amount to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount is done by the EEC on June 1 of the budget year. The EEC calculations, however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action. Additionally, by a two-thirds majority, the State Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal. The BSF's fund balance, including earnings on investments, as of June 30, 2017, was \$461.4 million.

**Q. NEW ACCOUNTING PRONOUNCEMENTS AND CHANGE IN REPORTING ENTITY**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes financial reporting standards for state and local governmental Other Postemployment Benefits (OPEB) plans, defined benefit OPEB plans and defined contribution OPEB plans that are administered through trusts or equivalent arrangements. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The State has implemented the requirements of this standard.

GASB Statement No. 77, *Tax Abatement Disclosures*. This Statement establishes standards for disclosing tax abatement agreements that reduce the reporting entity's tax revenues. This Statement is effective for financial statements for fiscal years beginning after December 15, 2015. The State has implemented the requirements of this standard.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement addresses an issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement is effective for financial statements for fiscal years beginning after December 15, 2015. The implementation of this standard had no effect on the financial statements.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. This Statement provides guidance to improve financial reporting by clarifying the financial statement presentation requirements for certain component units by establishing additional blending requirements. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The implementation of this standard had no effect on the financial statements.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement enhances consistency in the application of financial reporting requirements to certain pension issues. Certain provisions of this Statement are effective for the fiscal year beginning after June 15, 2016, with the remainder effective for the fiscal year beginning on or after June 15, 2017. The State has implemented the requirements of this standard.

As discussed earlier in Note 1.A, the AFA's WIFA, GADA, and AIDA are reported in the State's financial statements as a major component unit under the AFA. In the prior year, the WIFA was reported solely as a major component unit, the GADA was a non-major component unit, and the Arizona Health Facilities Authority, the Arizona Housing Finance Authority, and the Arizona International Development Authority that succeed to the AIDA were related organizations.

**NOTE 2. DEPOSITS AND INVESTMENTS**

**A. DEPOSITS AND INVESTMENT POLICIES**

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

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

The State statutes and the State Treasurer's investment policies designed to administer these statutes restrict investments to obligations of the U.S. Government and its agencies, obligations or other evidence of indebtedness of the State and certain local government subdivisions, negotiable certificates of deposit, bonds, debentures and notes issued by entities which are U.S. dollar

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denominated, commercial paper issued by entities which are U.S. dollar denominated, bankers acceptances, collateralized repurchase agreements, money market mutual funds, exchange traded funds, equities, and other securities. The State Treasurer is not allowed to invest in foreign investments unless the investment is denominated in U.S. dollars.

The State Treasurer maintains external investment pools [the Local Government Investment Pool (LGIP), Local Government Investment Pool - FF&C, Local Government Investment Pool – Medium Term, and Local Government Investment Pool – Medium Term FF&C]. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the Dodd-Frank Act of 2010. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with A.R.S. § 35-311.

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

In December 2011, the United States Bankruptcy Court for the Southern District of New York entered an order confirming the Modified Third Amended Lehman Brothers Joint Plan of Liquidation. During the current year, approximately \$1.2 million was received as payout of funds being held by the Indenture Trustee for Lehman Brothers securities, with \$1.1 million distributed to the participants. The payout received was allocated to participants based on the participant's share balance and then transferred to the LGIP, reducing the carry or cost basis in the Lehman Brothers Pool. As of June 30, 2017, the carry or cost basis and the fair value for the Lehman Brothers Pool were \$23.4 million and \$2.1 million, respectively. There was a distribution in January 2017, and future distributions are generally expected every six months thereafter. The remaining amount to be recovered is unknown.

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

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

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

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

The ASRS invests in short-term securities, obligations of the U.S. government or agencies of the U.S. government, corporate bonds, common and preferred stocks (domestic and foreign), mortgages, derivatives, commodities, real estate, private equity, and opportunistic debt and equity investments. Per A.R.S. § 38-718, no more than 80% of the ASRS' assets may be invested at any given time in equities, measured at fair value. No more than 40% of the ASRS' assets may be in non-U.S. public investments, measured at fair value. No more than 60% of the ASRS' assets may be invested internally, measured at fair value. No more than 10% of the ASRS' assets may be invested in bonds or other evidences of indebtedness of those multinational development banks in which the U.S. is a member nation, including the International Bank for Reconstruction and Development, the African Development Bank, the Asian Development Bank, and the Inter-American Development Bank, measured at fair value. The ASRS Board has not formally adopted more restrictive policies for the various types of risks.

Per A.R.S. § 38-848D, § 38-803A(4), and § 38-883A(4), the PSPRS, the EORP, and the CORP, respectively, may not invest at any given time more than 80% of the combined assets of the system or other plans that the Board of Trustees manages in corporate stocks, based on cost value of such stocks irrespective of capital appreciation. In addition, the PSPRS, the EORP, and the CORP investments shall be restricted to stocks and exchange traded funds that, except for bank and insurance stocks and membership interests in limited liability companies, are either: 1) listed or approved on issuance for listing on an exchange registered under the Securities Exchange Act of 1934, as amended, 2) designated or approved on notice of issuance for designation on the national market system of a national securities association registered under the Securities Exchange Act of 1934, as amended, 3) listed or approved on issuance for listing on an exchange registered under the laws of this State or any other State, 4) listed or approved on issuance for listing on an exchange registered of a foreign country with which the U.S. is maintaining diplomatic relations at the

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time of purchase, except that no more than 20% of the combined assets of the system or other plans that the board manages shall be invested in foreign securities, based on the cost value of the stocks irrespective of capital appreciation, or 5) an exchange traded fund that is recommended by the chief investment officer of the system, that is registered under the Investment Company Act of 1940, and that is both traded on a public exchange and based on a publicly recognized index. Not more than 5% of the combined assets of the system or other plans that the board manages shall be invested in corporate stock issued by any one corporation, other than corporate stock issued by corporations chartered by the U.S. government or corporate stock issued by a bank or insurance company. Not more than 5% of the voting stock of any one corporation shall be owned by the system and other plans that the board administers, except that this limitation does not apply to membership interests in limited liability companies.

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

Per A.R.S. § 23-1065, the Commission's investment committee is responsible for prescribing investment policies and supervising the investment activities of the Commission. The Commission requires that their investment policy be responsive to the unpredictable nature of the incidence and severity of claims, the long periods over which losses may be paid, and the effect on both claims and losses of increases in treatment and rehabilitation costs. The investment committee may invest in any legal investment authorized under A.R.S. § 38-718.

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

## **B. CUSTODIAL CREDIT RISK – DEPOSITS AND INVESTMENTS**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. The State Treasurer's, the Retirement Systems', and the Universities' deposits of State treasury monies with financial institutions are required by State statutes to be entirely covered by the Federal Depository Insurance Corporation (FDIC) or, alternatively, collateralized for amounts in excess of the amount insured. Surety collateral for the Universities and the ASRS must be equal to at least 100% of the bank balance required to be collateralized (102% for the State Treasurer, the PSPRS, the EORP, and the CORP). Beyond this requirement, these organizations do not have a formal policy specifically addressing custodial credit risk on deposits, except for the State Treasurer. The State statutes require surety collateral for the State Treasurer to consist of either: 1) U.S. Government obligations, State obligations, or obligations of counties or municipalities within the State, 2) State Treasurer's warrant notes, or 3) the safekeeping receipt of the financial institution accepting the deposit.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The State does not have a formal policy in regard to custodial credit risk for investments. As of June 30, 2017, the State had \$80.9 million in securities that were uninsured, not registered in the State's name, and held by either the counterparty or counterparty's trust department or agent, but not in the State's name.

## **C. INTEREST RATE RISK**

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

The State Treasurer manages interest rate risk by incorporating A.R.S. limitations into their investment policy and setting forth various thresholds or parameters relating to interest rate risk in accordance with each investment pool's portfolio structure. The

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State Treasurer’s policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored monthly by measuring the weighted average maturity and/or duration.

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

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

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

The following table presents the State Treasurer’s, the ASU’s, the Commission’s, and the IDGF’s weighted average maturity in years by investment type as of June 30, 2017 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Weighted Average Maturity (in years)</b>
Asset backed securities	\$ 365,031	2.43
Certificates of deposit (negotiable)	107,050	0.12
Commercial mortgage backed securities	139,562	29.27
Commercial paper	1,398,670	0.10
Corporate notes & bonds	2,237,873	2.88
Government bonds	287,837	7.37
Money market mutual funds	615,500	0.07
Repurchase agreements	2,120,617	0.01
U.S. agency mortgage backed securities	1,195,230	16.98
U.S. agency mortgage backed securities – full faith	467,530	19.38
U.S. agency securities	1,002,546	1.14
U.S. agency securities – full faith	225,885	1.15
U.S. Treasury securities	2,540,162	1.40
Other	52,068	2.84
<b>Total</b>	<b>\$ 12,755,561</b>	<b>3.78</b>

The ASRS has not adopted a specific formal policy for interest rate risk, but does set more restrictive requirements in its contracts with money managers. The ASRS utilizes effective duration to identify and manage its interest rate risk. Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents ASRS’ effective duration by investment type as of June 30, 2017 (expressed in thousands):

<b>Investment Type</b>	<b>Fair Value</b>	<b>Effective Duration (in years)</b>
Asset backed securities	\$ 9,996	2.70
Commercial mortgage backed securities	38,257	6.80
Corporate bonds	1,475,726	5.00
Government bonds	702,967	6.50
Government mortgage backed securities	469,753	2.60
<b>Total</b>	<b>\$ 2,696,699</b>	<b>4.99</b>

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

The following table presents the interest rate risk for the PSPRS, the EORP, the CORP, the NAU, the U of A, and other State agencies utilizing the segmented time distribution as of June 30, 2017 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)					
		Less than 1	1-5	6-10	11-15	16-20	More than 20
Certificates of deposit (negotiable)	\$ 34,081	\$ 13,135	\$ 19,980	\$ 966	\$ -	\$ -	\$ -
Commercial paper	28,494	28,494	-	-	-	-	-
Corporate notes & bonds	1,046,420	82,565	419,543	53,812	1,121	153	489,226
Government bonds	1,730	80	1,650	-	-	-	-
Money market mutual funds	117,178	117,178	-	-	-	-	-
U.S. agency securities	220,890	77,510	113,221	22,633	-	547	6,979
U.S. Treasury securities	125,489	79,932	45,411	146	-	-	-
Other	5,416	-	1,896	3,370	150	-	-
Total	\$ 1,579,698	\$ 398,894	\$ 601,701	\$ 80,927	\$ 1,271	\$ 700	\$ 496,205

The following table presents the State's investments at fair value that are considered to be highly sensitive to interest rate changes as of June 30, 2017 (expressed in thousands):

Interest Rate Terms	Corporate Notes & Securities	U.S. Agency Securities	Other	Total
Investments (including full faith) with coupon tied to the London Interbank Offered Rate (LIBOR) plus/minus a fixed basis point which resets monthly, quarterly, or semi-annually.	\$ 712,678	\$ 175,679	\$ -	\$ 888,357
Asset backed securities with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	54,292	-	-	54,292
Mortgage backed securities (including full faith) - when interest rates fall, mortgages are refinanced and paid off early and the reduced stream of future interest payments diminishes fair value of the investment.	126,572	1,662,760	-	1,789,332
U.S. Treasury securities with coupon tied to the U.S. Treasury 3 month bill money market yield plus/minus a fixed basis point which resets weekly.	-	-	100,154	100,154
Other investments (including full faith) with high sensitivity to rate changes.	64,275	95,716	-	159,991
Total	\$ 957,817	\$ 1,934,155	\$ 100,154	\$ 2,992,126

**D. CREDIT RISK**

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

State statutes and the State Treasurer's investment policy require that commercial paper must be rated by at least two nationally recognized statistical rating organizations (NRSROs) and that the ratings assigned by at least two of the NRSROs be of the two highest rating categories for short-term obligations. Corporate bonds, debentures, notes, negotiable certificates of deposit, and municipal bonds must carry an investment grade rating by any NRSRO. For securities of, or any other interests in, any open-end management type investment company or investment trust, including exchange traded funds, the underlying investments must be securities which are allowable under State statutes. There is no statute or investment policy on ratings or credit quality for obligations issued by the U.S. Government or its agencies or repurchase agreements. The underlying securities for repurchase agreements are implicitly guaranteed by the U.S. Government, as some are collateralized with U.S. agency securities.

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



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

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

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

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

The following table presents the State's investments which were rated by S & P and/or an equivalent national rating organization as of June 30, 2017. The ratings are presented using S & P's rating scale (expressed in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	CCC Thru D	A-1	Not Rated
Asset backed securities	\$ 341,218	\$ 277,588	\$ 1,313	\$ 1,695	\$ 2,344	\$ -	\$ -	\$ -	\$ 56,866	\$ 1,412
Certificates of deposit (negotiable)	122,867	-	31,047	1,999	-	-	-	-	80,000	9,821
Commercial mortgage backed securities	177,819	167,494	-	-	-	-	-	-	-	10,325
Commercial paper	1,427,164	-	-	-	-	-	-	-	1,427,164	-
Corporate notes & bonds	4,760,019	98,384	520,428	1,504,694	1,116,765	323,751	533,529	157,696	100	504,672
Government bonds	978,042	150,871	674,774	56,665	58,333	12,664	19,548	5,019	-	168
Government mortgage backed securities	469,753	-	434,094	9,641	11,284	10,766	3,718	250	-	-
Money market mutual funds	732,678	732,549	-	-	-	-	-	-	-	129
Repurchase agreements	935,000	-	935,000	-	-	-	-	-	-	-
U.S. agency mortgage backed securities	1,183,578	-	1,181,062	-	-	-	-	-	-	2,516
U.S. agency securities	1,215,910	66,530	1,149,380	-	-	-	-	-	-	-
Other	71,276	-	797	1,101	-	-	-	-	-	69,378
<b>Total</b>	<b>\$12,415,324</b>	<b>\$1,493,416</b>	<b>\$4,927,895</b>	<b>\$1,575,795</b>	<b>\$1,188,726</b>	<b>\$347,181</b>	<b>\$556,795</b>	<b>\$162,965</b>	<b>\$1,564,130</b>	<b>\$598,421</b>

**E. CONCENTRATION OF CREDIT RISK**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the Universities', and the Commission's investment policies provide that no more than 5% of their investments shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. However, securities issued by the U.S. government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt. The State Treasurer also exempts from this policy the purchase of Treasurer Warrant Notes for the State Agencies Diversified pool, provided the maximum amount of the notes purchased shall not exceed 50% of the market value of the pool, bonds issued by an

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agency of the State, and pre-refunded municipal bonds issued by any entity that are invested in obligations issued or guaranteed by the U.S. government or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities. The PSPRS', the EORP's, and the CORP's investment policies state that no more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency, or corporation other than bonds issued as direct obligations of, and fully guaranteed by, the U.S. Government. The IDGF's investment policies state that no more than 5% of its investment portfolio or \$5 million, whichever is less, shall be invested with any one issuer, with the exception of the U.S. government, its agencies, or instrumentalities. At June 30, 2017, more than 5% of the primary government's total investments are in Federal National Mortgage Association (fair value of \$758.4 million, or 5.6%).

**F. FOREIGN CURRENCY RISK**

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit. The State does not have a formal policy regarding foreign currency risk. The ASRS, the PSPRS, the EORP, and the CORP are the primary State agencies that have foreign currency risk. Per A.R.S. § 38-718, no more than 40% of the ASRS' assets may be invested in foreign securities and those investments shall be made only by investment managers with expertise in those investments. The ASRS has not adopted a formal policy that is more restrictive. According to State statutes, the PSPRS, the EORP, and the CORP shall not invest more than 20% of the combined assets of the system or other plans that the Board of Trustees manages in foreign securities. The following table summarizes the State's foreign currency risk as of June 30, 2017 (expressed in thousands):

<b>Foreign Currency Risk by Investment Type at Fair Value</b>				
<b>Currency</b>	<b>Short Term</b>	<b>Equities</b>	<b>Other Investments</b>	<b>Total</b>
Australian Dollar	\$ 121	\$ 106,808	\$ -	\$ 106,929
Brazilian Real	92	58,908	-	59,000
British Pound Sterling	1,518	560,541	26,525	588,584
Canadian Dollar	181	83,746	-	83,927
Chilean Peso	28	5,135	-	5,163
Columbian Peso	-	757	-	757
Czech Koruna	15	336	-	351
Danish Krone	108	72,112	-	72,220
Euro Currency	3,584	1,118,874	275,608	1,398,066
Hong Kong Dollar	348	228,835	-	229,183
Hungarian Forint	27	6,011	-	6,038
Indian Rupee	3,004	138,029	-	141,033
Indonesian Rupiah	51	30,512	-	30,563
Japanese Yen	3,840	638,228	-	642,068
Malaysian Ringgit	34	9,347	-	9,381
Mexican Peso	127	26,670	11,441	38,238
New Israeli Shekel	97	5,612	-	5,709
New Taiwan Dollar	2,000	73,067	-	75,067
New Zealand Dollar	62	2,142	-	2,204
Norwegian Krone	127	37,292	-	37,419
Philippine Peso	11	11,915	-	11,926
Polish Zloty	25	2,744	-	2,769
Qatari Riyal	(224)	1,643	-	1,419
Singapore Dollar	223	18,775	-	18,998
South African Rand	42	48,514	-	48,556
South Korean Won	888	116,619	-	117,507
Swedish Krona	(3)	69,008	-	69,005
Swiss Franc	233	199,140	-	199,373
Thailand Baht	768	24,335	-	25,103
Turkish Lira	21	7,261	-	7,282
Uae Dirham	(191)	6,463	-	6,272
<b>Total</b>	<b>\$ 17,157</b>	<b>\$ 3,709,379</b>	<b>\$ 313,574</b>	<b>\$ 4,040,110</b>

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**G. FAIR VALUE MEASUREMENT OF INVESTMENTS**

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

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

**1. Primary Government (excluding Universities and Retirement Systems)**

**a. Investments Classified in Fair Value Hierarchy**

The investments held by the primary government (excluding Universities and Retirement Systems) at June 30, 2017, categorized within the fair value hierarchy, were as follows (expressed in thousands):

Investments by Fair Value Level	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset backed securities	\$ 349,563	\$ -	\$ 349,563	\$ -
Certificates of deposit (negotiable)	107,050	-	107,050	-
Commercial mortgage backed securities	130,122	-	130,122	-
Commercial paper	1,398,670	-	1,398,670	-
Corporate notes & bonds	1,862,707	-	1,862,707	-
Equities	3,491,799	3,491,799	-	-
Government bonds	280,633	-	280,633	-
Money market mutual funds	181,999	17,483	164,516	-
Repurchase agreements	2,120,617	-	2,120,617	-
Security lending collateral investments	85,951	-	85,951	-
U.S. agency mortgage backed securities	1,195,230	-	1,195,230	-
U.S. agency mortgage backed securities – full faith	467,530	-	467,530	-
U.S. agency securities	874,015	-	874,015	-
U.S. agency securities - full faith	225,885	-	225,885	-
U.S. Treasury securities	2,364,627	193,508	2,171,119	-
Other	15,690	13,792	1,898	-
Total investments by fair value level	15,152,088	\$ 3,716,582	\$ 11,435,506	\$ -
<b>Investments Measured at the Net Asset Value (NAV)</b>				
Foreign large value fund	20,905			
Natural resources investment fund	7,057			
Total investments measured at the NAV	27,962			
Total investments measured at fair value	\$ 15,180,050			

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

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**b. Investments Measured at the NAV**

The investments held at June 30, 2017, valued using the NAV per share were as follows (expressed in thousands):

<b>Investments Measured at the NAV</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
Foreign large value fund	\$ 20,905	-	N/A	N/A
Natural resources investment fund	7,057	-	N/A	N/A
Total	<u>\$ 27,962</u>			

**2. Universities**

**a. Investments Classified in Fair Value Hierarchy**

The investments held by the Universities at June 30, 2017, categorized within the fair value hierarchy, were as follows (expressed in thousands):

<b>Investments by Fair Value Level</b>	<b>June 30, 2017</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Asset backed securities	\$ 15,468	\$ -	\$ 15,468	\$ -
Certificates of deposit (negotiable)	34,081	-	34,081	-
Commercial mortgage backed securities	9,440	-	9,440	-
Commercial paper	28,494	-	28,494	-
Corporate notes & bonds	923,002	-	922,594	408
Equities	4,385	3,392	510	483
Equity mutual funds	44,841	44,841	-	-
Fixed income mutual funds	2,944	2,944	-	-
Government bonds	8,934	-	8,934	-
Money market mutual funds	550,550	379,712	170,838	-
Mutual funds – asset allocation	622	622	-	-
Real estate	55,520	-	-	55,520
U.S. agency securities	341,895	-	341,895	-
U.S. Treasury securities	301,024	301,024	-	-
Other	50,170	50,170	-	-
Total investments by fair value level	<u>2,371,370</u>	<u>\$ 782,705</u>	<u>\$ 1,532,254</u>	<u>\$ 56,411</u>
<b>Other Investments at Fair Value</b>				
ASU Foundation Endowment Pool	130,118			
NAU Foundation Investment Pool	31,380			
U of A - Academic Enhancement Fund Trust	255,306			
U of A Foundation	185,657			
U of A - Split Interest Endowment	8,428			
Total other investments at fair value	<u>610,889</u>			
<b>Investments Measured at the NAV</b>				
Equity mutual funds	2,940			
Total investments measured at the NAV	<u>2,940</u>			
Total investments measured at fair value	<u>\$ 2,985,199</u>			

Investments categorized as Level 1 of the fair value hierarchy are valued using unadjusted prices quoted for identical assets in active, exchange, and brokered markets for those securities. Investments categorized as Level 2 of the fair value hierarchy are primarily valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments categorized as Level 3 of the fair value hierarchy are valued using various methods. The

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fair value of equities is valued using multiple pricing options. For managed assets, business appraisers use valuation methodologies based on a number of assumptions to create the price. For non-managed assets, pricing is provided by various sources including the issuer or private investment manager. Real estate is valued by using either (1) the market approach industry standard valuation technique which includes independent appraisals or (2) the income approach to measuring fair value which discounts future amounts to a single current amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

**b. Other Investments at Fair Value**

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

**c. Investments Measured at the NAV**

The investments held by the Universities at June 30, 2017, valued using the NAV per share were as follows (expressed in thousands):

<b>Investments Measured at the NAV</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
Equity mutual funds	\$ 2,940	-	Quarterly	90 days
Total	<u>\$ 2,940</u>			

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

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**3. Retirement Systems**

**a. Investments Classified in Fair Value Hierarchy**

The investments held by the ASRS, PSPRS, CORP, and EORP at June 30, 2017, categorized within the fair value hierarchy, were as follows (expressed in thousands):

Investments by Fair Value Level	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset backed securities	\$ 9,996	\$ -	\$ 9,996	\$ -
Commercial mortgage backed securities	38,257	-	38,257	-
Corporate notes & bonds	1,484,742	-	1,484,742	-
Government bonds	1,200,061	-	710,835	489,226
Government mortgage backed securities	469,753	-	469,753	-
Opportunistic equity	195,924	195,924	-	-
Real estate	46,321	-	-	46,321
U.S. equities	10,860,843	10,493,211	641	366,991
Non-U.S. equities	3,529,038	3,377,606	5,003	146,429
Total investments by fair value level	17,834,935	\$ 14,066,741	\$ 2,719,227	\$ 1,048,967
<b>Investments Measured at the NAV</b>				
Absolute return	284,129			
Comingled funds - commodities	1,663			
Comingled funds - equity	6,433,590			
Comingled funds - fixed income	2,073,714			
Comingled funds - multi asset	1,129,766			
Comingled funds - real estate	20,131			
Farmland fund	187,489			
Global tactical asset allocation	777,603			
Infrastructure fund	374,101			
Opportunistic debt funds	1,446,410			
Opportunistic equity funds	288,904			
Private credit	1,185,233			
Private debt funds	3,861,018			
Private equity funds	4,456,608			
Real assets	937,158			
Real estate	860,554			
Real estate funds	3,344,884			
Risk parity	446,675			
Total investments measured at the NAV	28,109,630			
Short-term investment funds at cost plus interest	859,728			
Securities lending collateral	794,155			
Total investments	\$ 47,598,448			

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

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**b. Investments Measured at the NAV**

The investments held by the ASRS, PSPRS, CORP, and EORP at June 30, 2017, valued using the NAV per share were as follows (expressed in thousands):

<b>Investment Measured at the NAV</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
Absolute return	\$ 284,129	\$ 85,206	N/A	N/A
Comingled funds - commodities	1,663	-	Daily	None
Comingled funds - equity	6,433,590	-	Daily, Monthly	1-3 days
Comingled funds - fixed income	2,073,714	-	Daily	None
Comingled funds - multi asset	1,129,766	-	Monthly	5 days
Comingled funds - real estate	20,131	-	Daily	None
Farmland fund	187,489	-	N/A	N/A
Global tactical asset allocation	777,603	-	Monthly, Quarterly, Annually	5 days – 1 year
Infrastructure fund	374,101	-	N/A	N/A
Opportunistic debt funds	1,446,410	888,000	N/A	N/A
Opportunistic equity funds	288,904	206,000	N/A	N/A
Private credit	1,185,233	561,306	Daily, Monthly, Quarterly, Annually	1 day – 1 year
Private debt funds	3,861,018	2,036,000	N/A	N/A
Private equity funds	4,456,608	2,372,467	N/A	N/A
Real assets	937,158	412,022	Daily, Monthly, Quarterly, Annually	1 day – 1 year
Real estate	860,554	680,745	Daily, Monthly, Quarterly, Annually	1 day – 1 year
Real estate funds	3,344,884	1,955,000	N/A	N/A
Risk parity	446,675	-	Monthly, Quarterly, Annually	5 days
<b>Total</b>	<b>\$ 28,109,630</b>	<b>\$ 9,196,746</b>		

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

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

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

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

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

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

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

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

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

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

**c. Other Investments at Cost Plus Accrued Interest**

Reinvested cash collateral held related to securities lending activities is reported based on the cash deposit value of the collateral held, which approximates fair value. Accordingly, securities lending cash collateral held is not categorized within the fair value level hierarchy.

**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, Northern Trust Company. Securities are loaned for collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. U.S. securities are loaned for collateral valued at 102% of the fair value of securities plus any accrued interest. International securities are loaned for collateral valued at 105% of the fair value of securities plus any accrued interest. Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of the Commission's loans was approximately 65 days, as of June 30, 2017. Cash open collateral is invested in a short-term investment pool, the NILAP fund, which had an interest sensitivity of 28 days, as of June 30, 2017. There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are 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.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending.

The fair value at June 30, 2017, for loaned securities collateralized by cash and non-cash collateral was \$5.4 million and \$7.6 million, respectively. As part of the securities lending transactions, The Northern Trust Company received cash and non-cash collateral valued at \$5.6 million and \$7.7 million, respectively, at June 30, 2017. Investments made with cash collateral received are classified as an asset on the Statement of Net Position. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2017, the Commission had \$5.6 million outstanding as payable for securities lending. The Commission has set a maximum restriction on the amount of securities that can be lent out at any one time at 13% of the total investment portfolio.

**2. Arizona State Retirement System**

The ASRS is permitted by A.R.S. § 38-718(G) to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with borrowers to loan securities and have the same securities redelivered at a later date. Securities eligible for loan include U.S. fixed income securities, U.S. equities, and international equities. The ASRS currently receives as collateral at least 102% of the fair value of the loaned securities and maintains collateral at no less than 100% for the duration of the loan. At year-end, the ASRS had limited counter party risk to borrowers because the collateral held by the ASRS for each loan exceeded the fair value owed to the ASRS. Securities loaned are initially fully collateralized by cash (USD), U.S. Government or agency securities, sovereign debt, corporate bonds, and/or equities. Cash collateral may be reinvested (under certain constraints) in: a) instruments issued or fully guaranteed by the U.S. Government, Federal agencies, or sponsored agencies or sponsored corporations, b) repurchase agreements, c) money market mutual funds, d) commercial paper, e) certificates of deposit, and f) bank notes. The ASRS records the reinvested cash collateral as an asset, and the cash collateral received as an obligation, for securities on loan on



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the Statement of Fiduciary Net Position. 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. The obligation for securities on loan is recorded as a liability because the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2017, the fair value of securities on loan was \$1.6 billion; of which \$169.1 million were cash collateralized loans. Cash of \$174.1 million received as collateral for securities loaned was reinvested and had a net position value of \$174.1 million, as of June 30, 2017. The securities lending payable at June 30, 2017, was \$174.1 million. The ASRS does not have the ability to pledge or sell the collateral unless there is a borrower default. There are no statutory restrictions on the dollar amount of security loans that may be made by the ASRS. The ASRS is indemnified against gross negligence and borrower default by the lending agents, but is not indemnified against cash collateral reinvestment risk.

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

The PSPRS, the EORP, and the CORP are permitted by A.R.S. Title 38, Chapter 5, Articles 4, 3, and 6, respectively, to enter into securities lending transactions. The PSPRS, the EORP, and the CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, the EORP, and the CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, the EORP, and the CORP require collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2017, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$462.8 million, \$20.8 million, and \$121.1 million, respectively. At June 30, 2017, the fair value of the associated collateral for the PSPRS, the EORP, and the CORP were \$474.5 million, \$21.3 million, and \$124.1 million, respectively. The PSPRS, the EORP, and the CORP are indemnified for broker default by the securities lending agent. The PSPRS, the EORP, and the CORP have no credit risk because the amounts owed to the borrowers exceed the amounts the borrowers owe to the retirement system or plan.

**4. State Treasurer**

The State Treasurer is permitted under A.R.S. § 35-313 and § 35-324 to enter into securities lending transactions. The State Treasurer’s custodial bank manages the securities lending program through a contractual agreement. At fiscal year-end, the State Treasurer had no credit risk exposure to borrowers because the amount the State Treasurer owes to the borrowers exceeds the amount the borrowers owe the State Treasurer. All securities are eligible for loan, but equities and U.S. Treasuries comprise a majority of securities that are on loan. There are no restrictions on the dollar amount of security loans that may be made by the State Treasurer. Securities are loaned for collateral that may include cash (U.S. currency), U.S. and international equities, and other assets permissible under Rule 15c3-3 under the Securities Exchange Act of 1934. Securities are loaned for collateral valued at not less than 102% of the fair value of the securities loaned at the close of trading on the preceding business day. Investments made with cash collateral are done on an individual investment pool basis and are restricted to the limitations for that investment pool set forth in the State Treasurer’s investment policy, except for investments made for certain endowment equity pools. Permitted investments for these equity pools include those investments authorized in section IV of the State Treasurer’s investment policy. Cash collateral investments include: a) obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities including repurchase and tri-party repurchase agreements collateralized at no less than 102% by securities, 100% by cash, and 102% by mortgage-backed securities and b) U.S. 2a-7 money market mutual funds which are regulated by the Securities and Exchange Commission and rated in the highest category by at least one NRSRO.

The State Treasurer records the cash collateral received as an asset and the same amount as obligations under securities loan agreements. As of June 30, 2017, the cost and fair value of securities on loan were \$518.0 million and \$548.4 million, respectively. The associated fair value of the invested collateral was \$560.7 million, of which \$86.0 million was invested cash collateral. All securities loans can be terminated on demand by either the State Treasurer or the borrower. For the cash collateral investments, the weighted average maturity was one day. The State Treasurer does not have the ability to pledge or sell the non-cash collateral unless there is a borrower default. The State Treasurer is indemnified against gross negligence, bad faith, or willful misconduct and borrower default by the lending agent. There were no borrower defaults during the current fiscal year. At June 30, 2017, the State Treasurer had \$86.0 million outstanding as payable for securities lending, and the following securities on loan were uninsured and held by the bank trust department not in the Treasurer’s name:

Corporate notes	\$ 1,073,884
U.S. Treasury securities	292,939,186
Equities	<u>170,527,277</u>
Total Fair Value	<u>\$ 464,540,347</u>

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**I. DERIVATIVES**

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

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

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value of derivative instruments for the year then ended as reported in the June 30, 2017 financial statements are as follows (expressed in thousands):

<b>Investment Derivatives by Type</b>					
<b>Investment Derivatives</b>	<b>Classification</b>	<b>Changes in Fair Value (1)</b>		<b>Fair Value at June 30, 2017</b>	
		<b>Amount (2)</b>	<b>Classification</b>	<b>Amount</b>	<b>Notional</b>
Commodity futures long	Net (decrease) in fair value of investments	\$ (368)	Not applicable	\$ -	\$ 588,410
Commodity futures short	Net (decrease) in fair value of investments	(10,143)	Not applicable	-	(166,163)
Fixed income futures long	Net (decrease) in fair value of investments	(6,763)	Not applicable	-	20,931
Fixed income futures short	Net increase in fair value of investments	224	Not applicable	-	(48,706)
Foreign currency forwards	Net (decrease) in fair value of investments	(2)	Futures receivable	-	-
Index futures long	Net increase in fair value of investments	24,450	Not applicable	-	74,967
Rights	Net increase in fair value of investments	730	Equity securities	426	426
Warrants	Net (decrease) in fair value of investments	(1,476)	Equity securities	792	792
<b>Total</b>		<b>\$ 6,652</b>		<b>\$ 1,218</b>	<b>\$ 470,657</b>

- (1) Excludes futures margin payments.  
 (2) Negative values refer to losses.

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

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

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

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

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As of June 30, 2017, investing activity in derivative instruments were exchange traded futures contracts. The ASRS did not have any over-the-counter investment derivative instruments as of June 30, 2017. Accordingly, the ASRS was not exposed to loss in case of default of all counterparties of over-the-counter positions as of June 30, 2017.

The ASRS has exposure to interest rate risk due to the investment in fixed income futures. The required risk disclosures are included in the Interest Rate Risk schedule in Note 2.C. The fair value balance and notional amount of the fixed income futures outstanding at June 30, 2017, for the year then ended, as reported in the June 30, 2017 financial statements are as follows (expressed in thousands):

<b>Derivative Instruments Highly Sensitive to Interest Rate Changes</b>				
<b>Asset ID</b>	<b>Asset Description</b>	<b>Interest Rate</b>	<b>Fair Value</b>	<b>Notional</b>
<b>FIXED INCOME FUTURES LONG</b>				
ADI0RY5B0	US 10YR NOTE (CBT) SEP 17	N/A	\$ -	\$ 3,766
ADI0T9TV3	US ULTRA BOND (CBT) SEP 17	N/A	-	3,317
ADI0TFNP8	US 2YR NOTE (CBT) SEP 17	N/A	-	5,835
ADI0VF3N2	US 5YR NOTE (CBT) SEP 17	N/A	-	8,013
Total Fixed Income Futures Long			\$ -	\$ 20,931
<b>FIXED INCOME FUTURES SHORT</b>				
ADI0RY5B0	US 10YR NOTE (CBT) SEP 17	N/A	\$ -	\$ (48,706)
Total Fixed Income Futures Short			\$ -	\$ (48,706)

The ASRS did not hold foreign currency forward contracts and future contracts as of June 30, 2017, and was not exposed to foreign currency risk through derivative instruments.

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

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

The State Treasurer issues separately published Annual Audited Financial Statements. These financial statements provide additional information relating to the State Treasurer’s total investing activities, including the investment trust funds. A copy of the State Treasurer’s Office Annual Audited Financial Statements can be obtained from their office at: Office of the Arizona State Treasurer, 1700 W. Washington Street, Phoenix, AZ 85007, (602) 542-7800, or their website at [www.aztreasury.gov](http://www.aztreasury.gov).

**NOTE 3. RECEIVABLES/UNAVAILABLE REVENUE/UNEARNED REVENUE**

**A. TAXES RECEIVABLE**

At June 30, 2017, taxes receivable were as follows (expressed in thousands):

<b>Type of Tax</b>	<b>General Fund</b>	<b>Transportation &amp; Aviation Planning, Highway Maintenance &amp; Safety Fund</b>	<b>Non-major Governmental Funds</b>	<b>Non-major Enterprise Funds</b>	<b>Government-wide Total</b>
Sales	\$ 541,843	\$ -	\$ 61,393	\$ -	\$ 603,236
Income – individual and corporate	193,763	-	-	-	193,763
Motor vehicle and fuel	-	83,972	-	-	83,972
Luxury	7,751	-	20,550	-	28,301
Unemployment	-	-	-	94,108	94,108
Other	-	-	5,953	-	5,953
Gross taxes receivable	743,357	83,972	87,896	94,108	1,009,333
Allowance for uncollectible taxes	(326,396)	-	-	-	(326,396)
Net Taxes Receivable	\$ 416,961	\$ 83,972	\$ 87,896	\$ 94,108	\$ 682,937

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**B. UNAVAILABLE REVENUE**

At June 30, 2017, the components of unavailable revenue for governmental funds were as follows (expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Other Governmental Funds	Total Governmental Funds
<b>Unavailable Revenue for Governmental Funds:</b>					
Delinquent sales tax	\$ 134,196	\$ -	\$ -	\$ -	\$ 134,196
Delinquent income tax	10,379				10,379
Tobacco settlement	39,500	-	-	-	39,500
Child support administrative reimbursements	4,289	-	-	-	4,289
Federal grants	82,087	40,669	-	-	122,756
Drug Rebates	35,483	-	-	-	35,483
Land sales receivable	-	-	252,323	-	252,323
Land leases receivable	-	-	2,935	-	2,935
Other	1,613	289	-	480	2,382
Total Unavailable Revenue for Governmental Funds	\$ 307,547	\$ 40,958	\$ 255,258	\$ 480	\$ 604,243

**C. UNEARNED REVENUE**

At June 30, 2017, the components of unearned revenue were as follows (expressed in thousands):

<b>Unearned Revenue for Governmental Funds:</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Total Unearned Revenue</b>
General Fund:			
Advance insurance premium taxes	\$ 51,771	\$ -	\$ 51,771
Advance land lease payments	291	2,807	3,098
Advance county acute and long term care payments	21,487	-	21,487
Vaccine and commodity food supplement	599	-	599
Other	219	-	219
Transportation & Aviation Planning, Highway Maintenance & Safety Fund:			
Magazine subscriptions	1,733	-	1,733
Land Endowments Fund:			
Advance land lease payments	24,297	83,973	108,270
Non-Major Funds:			
Advance payments for Hawaii/Arizona PMMIS Alliance	616	-	616
Advance renewal of contractors' license assessment	801	-	801
Other	87	-	87
Total Unearned Revenue for Governmental Funds	\$ 101,901	\$ 86,780	\$ 188,681

**Unearned Revenue for Proprietary Funds:**

	<b>Current</b>
Universities:	
Unexpended cash advances received	\$ 76,808
Auxiliary sales and services	9,513
Student tuition and fees	101,225
Deposits	1,017
Other	3,428
Non-Major Funds:	
Other	150
Total Unearned Revenue for Proprietary Funds	\$ 192,141

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**NOTE 4. CAPITAL ASSETS**

Capital asset activities for the fiscal year ended June 30, 2017, were as follows (expressed in thousands):

	<b>Primary Government</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Adjustments &amp; Reclassifications</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>					
Non-depreciable capital assets:					
Land	\$ 3,380,840	\$ 201,635	\$ (38,824)	\$ 17,405	\$ 3,561,056
Construction in progress	1,463,870	586,064	(1,293)	(87,866)	1,960,775
Development in progress	25,522	42,389	(20,459)	6,402	53,854
Infrastructure	16,095,093	9,602	(3,956)	88,912	16,189,651
Total Non-depreciable Capital Assets	20,965,325	839,690	(64,532)	24,853	21,765,336
Depreciable capital assets:					
Buildings	2,423,465	53,346	(2,146)	19,147	2,493,812
Improvements other than buildings	183,371	3,922	-	533	187,826
Equipment	941,394	68,181	(55,249)	(18,865)	935,461
Software and other intangibles	362,681	49	(13)	(16,970)	345,747
Infrastructure	27,102	-	-	154	27,256
Total Depreciable Capital Assets	3,938,013	125,498	(57,408)	(16,001)	3,990,102
Less accumulated depreciation for:					
Buildings	(948,424)	(64,133)	509	(336)	(1,012,384)
Improvements other than buildings	(120,026)	(7,498)	-	80	(127,444)
Equipment	(646,300)	(63,453)	50,889	4,581	(654,283)
Software and other intangibles	(203,451)	(16,936)	(1)	6,361	(214,027)
Infrastructure	(13,450)	(449)	-	(2)	(13,901)
Total Accumulated Depreciation	(1,931,651)	(152,469)	51,397	10,684	(2,022,039)
Total Depreciable Capital Assets, Net	2,006,362	(26,971)	(6,011)	(5,317)	1,968,063
Total Governmental Activities Capital Assets, Net	<u>\$ 22,971,687</u>	<u>\$ 812,719</u>	<u>\$ (70,543)</u>	<u>\$ 19,536</u>	<u>\$ 23,733,399</u>
<b>Business-type Activities:</b>					
Non-depreciable capital assets:					
Land	\$ 239,353	\$ 13,832	\$ -	\$ -	\$ 253,185
Construction in progress	369,378	332,275	(107)	(173,520)	528,026
Development in progress	61,167	9,155	-	-	70,322
Collections	21,311	57	-	-	21,368
Total Non-depreciable Capital Assets	691,209	355,319	(107)	(173,520)	872,901
Depreciable capital assets:					
Buildings	6,102,377	108,551	(9,074)	166,100	6,367,954
Improvements other than buildings	16,294	167	(129)	(874)	15,458
Equipment	1,683,694	107,022	(35,567)	(120)	1,755,029
Software and other intangibles	137,321	884	-	-	138,205
Infrastructure	551,980	16,208	(588)	6,885	574,485
Total Depreciable Capital Assets	8,491,666	232,832	(45,358)	171,991	8,851,131
Less accumulated depreciation for:					
Buildings	(2,442,534)	(178,621)	5,091	(790)	(2,616,854)
Improvements other than buildings	(15,493)	(286)	129	1,000	(14,650)
Equipment	(1,288,010)	(93,003)	32,947	105	(1,347,961)
Software and other intangibles	(97,352)	(10,343)	-	-	(107,695)
Infrastructure	(239,280)	(18,339)	146	2	(257,471)
Total Accumulated Depreciation	(4,082,669)	(300,592)	38,313	317	(4,344,631)
Total Depreciable Capital Assets, Net	4,408,997	(67,760)	(7,045)	172,308	4,506,500
Total Business-type Activities Capital Assets, Net	<u>\$ 5,100,206</u>	<u>\$ 287,559</u>	<u>\$ (7,152)</u>	<u>\$ (1,212)</u>	<u>\$ 5,379,401</u>

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

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

General government	\$ 25,769
Health and welfare	25,298
Inspection and regulation	658
Education	1,959
Protection and safety	62,668
Transportation	26,953
Natural resources	<u>9,164</u>
Total Governmental Activities	<u>\$ 152,469</u>

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

Universities	\$ 297,969
Other	<u>2,623</u>
Total Business-type Activities	<u>\$ 300,592</u>

**NOTE 5. PENSION BENEFITS**

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

Changes in the State’s net pension liability during the fiscal year ended June 30, 2017, were as follows (expressed in thousands):

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Beginning balance	\$ 3,836,769	\$ 1,397,355
Increases	1,259,738	331,332
Decreases	<u>(995,330)</u>	<u>(252,051)</u>
Ending balance	<u>\$ 4,101,177</u>	<u>\$ 1,476,636</u>

For the year ended June 30, 2017, the State recognized pension expense for all plans to which it contributes of \$573.0 million and \$15.4 million of grant expense for EORP. Also, the State reported \$269.9 million of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes and \$4.2 million of grant expenditures related to EORP.

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**A. ARIZONA STATE RETIREMENT SYSTEM**

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

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

\* With actuarially reduced benefits.

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

**Contributions**—In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2017, statute required active ASRS members to contribute at the actuarially determined rate of 11.34 percent of the members’ annual covered payroll, and statute required the State to contribute at the actuarially determined rate of 10.78 percent of the active members’ annual covered payroll. In addition, the State was required by statute to contribute at the actuarially determined rate of 9.17 percent of annual covered payroll of retired members who worked for the State in positions that an employee who contributes to the ASRS would typically fill. The State’s contributions to the pension plan for the year ended June 30, 2017, were \$224.8 million.

During fiscal year 2017, the State paid for ASRS pension contributions as follows: 70.22 percent from the General Fund, 14.72 percent from major funds, and 15.06 percent from other funds.

**Pension Liability**—At June 30, 2017, the State reported a liability of \$3.5 billion for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The total pension liability as of June 30, 2016, reflects a change in actuarial assumption for a decrease in loads for future potential permanent benefit increases. The State’s proportion of the net pension liability was based on the State’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2016. The State’s proportion measured as of June 30, 2016, was 21.75 percent, which was an increase of .08 percent from its proportion measured as of June 30, 2015.

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**Pension Expense and Deferred Outflows/Inflows of Resources**—For the year ended June 30, 2017, the State recognized pension expense for ASRS of \$224.0 million. At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 21,333	\$ 241,499
Changes of assumptions or other inputs	-	185,735
Net difference between projected and actual earnings on pension plan investments	380,425	-
Changes in proportion and differences between State contributions and proportionate share of contributions	88,366	51,752
State contributions subsequent to the measurement date	224,788	-
Total	<u>\$ 714,912</u>	<u>\$ 478,986</u>

The \$224.8 million reported as deferred outflows of resources related to ASRS pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows (expressed in thousands):

<u>Year ending June 30</u>	
2018	\$ (136,683)
2019	(114,678)
2020	155,830
2021	106,669

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

Actuarial valuation date	June 30, 2015
Actuarial roll forward date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3–6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.



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The long-term expected rate of return on ASRS pension plan investments was determined to be 8.75 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>
Equity	58%	6.73%
Fixed Income	25%	3.70%
Real Estate	10%	4.25%
Multi-Asset	5%	3.41%
Commodities	2%	3.84%
Total	<u>100%</u>	

**Discount Rate**—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
State’s proportionate share of the net pension liability	\$4,476,196	\$3,510,533	\$2,736,282

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

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

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

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

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

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

**Employees Covered by Benefit Terms**—At June 30, 2017, the following employees were covered by the agent pension plans' benefit terms:

	<b>PSPRS PSA</b>	<b>CORP DCA</b>
Retirees or beneficiaries currently receiving benefits	1,314	3,012
Inactive employees entitled to but not yet receiving benefits	158	1,209
Active employees	1,030	7,922
Total	<u>2,502</u>	<u>12,143</u>

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**Contributions**—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. The rates for contributions for the year ended June 30, 2017, are indicated below. Rates are a percentage of active members’ annual covered payroll.

	<u>PSPRS PSA</u>	<u>CORP DCA</u>
Active members - Pension	11.65%	8.41%
State - Pension	77.96%	18.74%

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

	<u>PSPRS PSA</u>	<u>CORP DCA</u>
Pension	64.72%	12.10%

The State’s contributions to the pension plan for the year ended June 30, 2017, were (expressed in thousands):

	<u>PSPRS PSA</u>	<u>CORP DCA</u>
Pension contributions made	\$ 60,271	\$ 62,909

During fiscal year 2017, the State paid for PSPRS and CORP pension contributions as follows: 58.26 percent from the General Fund and 41.74 percent from other funds.

**Pension Liability**—At June 30, 2017, the State reported the following net pension liabilities (expressed in thousands):

	<u>Net Pension Liability</u>
PSPRS - PSA	\$ 763,250
CORP - DCA	738,891

The net pension liabilities were measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2016, reflect the following changes of benefit terms and actuarial assumptions.

- In May 2016, voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS’ automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent.
- Laws 2016, Chapter 2, changed the benefit formula and contribution requirements for members hired on or after July 1, 2017.
- The investment rate of return actuarial assumption was decreased from 7.85 percent to 7.50 percent for PSPRS and CORP plans.

The net pension liabilities measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the State’s net pension liabilities as a result of these changes is not known.

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

**PSPRS and CORP - Pension**

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4.0% to 8.0% for PSPRS and 4.0%–7.25% for CORP
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for males and females)

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.50 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

**Discount Rates**—The following discount rates were used to measure the total pension liabilities:

	<u>PSPRS PSA</u>	<u>CORP DCA</u>
Discount rates	7.50%	7.50%
Changes from prior year	(0.35)	(0.35)

The projection of cash flows used to determine the PSPRS – PSA and CORP – DCA discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the PSPRS – PSA plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments for this plan to determine the total pension liability. However, based on the above assumptions, the CORP – DCA plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for this plan, the long-term expected rate of return on pension plan investments of 7.50 percent was applied to periods of projected benefit payments through the year ended June 30, 2115. A municipal bond rate of 2.85 percent obtained from the Federal Reserve as of June 30, 2016, was applied to periods of projected benefit payments after June 30, 2115.

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**Changes in the Net Pension Liability**  
 (expressed in thousands):

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
<b>PSPRS - PSA</b>			
Balances at June 30, 2016	\$ 1,028,687	\$ 348,114	\$ 680,573
Changes for the year:			
Service cost	14,131	-	14,131
Interest on the total pension liability	78,000	-	78,000
Changes of benefit terms	27,674	-	27,674
Differences between expected and actual experience in the measurement of the pension liability	(9,237)	-	(9,237)
Changes of assumptions or other inputs	35,783	-	35,783
Contributions – employer	-	52,115	(52,115)
Contributions – employee	-	9,334	(9,334)
Net investment income	-	1,963	(1,963)
Benefit payments, including refunds of employee contributions	(84,231)	(84,231)	-
Administrative expense	-	(283)	283
Other changes	-	545	(545)
Net changes	<u>62,120</u>	<u>(20,557)</u>	<u>82,677</u>
Balances at June 30, 2017	<u>\$ 1,090,807</u>	<u>\$ 327,557</u>	<u>\$ 763,250</u>

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
<b>CORP - DCA</b>			
Balances at June 30, 2016	\$ 1,436,586	\$ 788,928	\$ 647,658
Changes for the year:			
Service cost	47,529	-	47,529
Interest on the total pension liability	111,087	-	111,087
Changes of benefit terms	2,464	-	2,464
Differences between expected and actual experience in the measurement of the pension liability	(36,180)	-	(36,180)
Changes of assumptions or other inputs	58,949	-	58,949
Contributions – employer	-	60,984	(60,984)
Contributions – employee	-	27,824	(27,824)
Net investment income	-	4,831	(4,831)
Benefit payments, including refunds of employee contributions	(90,460)	(90,460)	-
Administrative expense	-	(683)	683
Other changes	-	(340)	340
Net changes	<u>93,389</u>	<u>2,156</u>	<u>91,233</u>
Balances at June 30, 2017	<u>\$ 1,529,975</u>	<u>\$ 791,084</u>	<u>\$ 738,891</u>

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**Sensitivity of the State’s Net Pension Liability to Changes in the Discount Rate**—The following table presents the State’s net pension liabilities calculated using the discount rate of 7.50 percent, as well as what the State’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.50 percent) or 1 percentage point higher (8.50 percent) than the current rate (expressed in thousands):

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
<b>PSPRS - PSA</b>			
Net pension liability	\$ 887,674	\$ 763,250	\$ 659,351
<b>CORP - DCA</b>			
Net pension liability	\$ 935,903	\$ 738,891	\$ 576,205

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

**Pension Expense**—For the year ended June 30, 2017, the State recognized the following pension expense (expressed in thousands):

	<b>Pension Expense</b>
PSPRS - PSA	\$ 115,786
CORP - DCA	102,018

**Deferred Outflows/Inflows of Resources**—At June 30, 2017, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

<b>PSPRS – PSA</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 11,771
Changes of assumptions or other inputs	61,844	-
Net difference between projected and actual earnings on pension plan investments	20,558	-
State contributions subsequent to the measurement date	60,271	-
Total	<u>\$ 142,673</u>	<u>\$ 11,771</u>
<b>CORP – DCA</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 51,227
Changes of assumptions or other inputs	109,031	-
Net difference between projected and actual earnings on pension plan investments	48,762	-
State contributions subsequent to the measurement date	62,909	-
Total	<u>\$ 220,702</u>	<u>\$ 51,227</u>

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The amounts reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

<b>Year Ending June 30</b>	<b>PSPRS PSA</b>	<b>CORP DCA</b>
2018	\$ 32,019	\$ 29,564
2019	18,079	29,564
2020	13,256	33,193
2021	7,277	11,655
2022	-	2,590

**C. ELECTED OFFICIALS' RETIREMENT PLAN**

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

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

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

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



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**Contributions**—State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2017, statute required active EORP members to contribute 13 percent of the members’ annual covered payroll and the State to contribute 23.5 percent of active EORP members’ annual covered payroll. In addition, statute required the State to contribute 23.5 percent of annual covered payroll of retired members who worked for the State in positions that an employee who contributes to the EORP would typically fill. The State’s contributions to the pension plan for the year ended June 30, 2017, were \$7.6 million, including \$4.2 million related to State support, as a nonemployer contributing entity.

During fiscal year 2017, the State paid for EORP pension contributions as follows: 97.70 percent from the General Fund and 2.30 percent from other funds. In addition, during fiscal year 2017, the State, as a nonemployer contributing entity, paid for EORP pension contributions as follows: 100.00 percent from the General Fund.

**Pension Liability**—At June 30, 2017, the amount the State recognized as its proportionate share of the net pension liability, the related State support, as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the State were as follows (expressed in thousands):

State’s proportionate share of the EORP net pension liability	\$ 174,204
State’s proportionate share of the EORP net pension liability, as a nonemployer contributing entity	<u>131,871</u>
Total	<u><u>\$ 306,075</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability as of June 30, 2016, reflects a decrease in the investment rate of return actuarial assumption from 7.85 percent to 7.50 percent.

The State’s proportion of the net pension liability was based on the State’s actual contributions to the plan relative to the total of all participating employers’ actual contributions for the year ended June 30, 2016. The State’s proportion measured as of June 30, 2016, was 18.44 percent, which was a decrease of .23 from its proportion measured as of June 30, 2015. The State’s proportion, as a nonemployer contributing entity, measured as of June 30, 2016, was 13.96 percent, which was a decrease of 5.37 from its proportion measured as of June 30, 2015.

The collective net pension liability measured as of June 30, 2017, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the State’s proportionate share of the collective net pension liability as a result of these changes is not known.

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**Pension Expense, Grant Expense, and Deferred Outflows/Inflows of Resources**—For the year ended June 30, 2017, the State recognized pension expense for EORP of \$38.6 million and revenue of \$1.6 million for the designated court fees. In addition, the State recognized grant expense of \$15.4 million, as a result of its requirement to contribute to EORP as a nonemployer contributing entity. At June 30, 2017, the State and the State, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	<u>The State</u>		<u>The State, as a nonemployer contributing entity</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 3,276	\$ -	\$ 2,480
Changes of assumptions or other inputs	19,559	-	14,805	-
Net difference between projected and actual earnings on pension plan investments	4,035	-	3,055	-
Changes in proportion and differences between State contributions and proportionate share of contributions	4,383	4,629	265	20,473
State contributions subsequent to the measurement date	3,389	-	4,171	-
Total	<u>\$ 31,366</u>	<u>\$ 7,905</u>	<u>\$ 22,296</u>	<u>\$ 22,953</u>

The amounts reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows (expressed in thousands):

<u>Year ending June 30</u>	<u>The State</u>	<u>The State, as a nonemployer contributing entity</u>
2018	\$ 13,518	\$ (4,421)
2019	4,279	(2,128)
2020	1,466	1,110
2021	809	611

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

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Investment rate of return	7.50%
Projected salary increases	4.25%
Inflation	4.00%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

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The long-term expected rate of return on EORP pension plan investments was determined to be 7.50 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

**Discount Rate**—At June 30, 2016, the discount rate used to measure the EORP total pension liability was 3.68 percent, which was a decrease of 1.18 from the discount rate used as of June 30, 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and non-employer contributions will be made as currently required by statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.50 percent was applied to periods of projected benefit payments through the year ended June 30, 2027. A municipal bond rate of 2.85 percent obtained from the 20-year Bond Buyer Index, as published by the Federal Reserve as of June 30, 2016, was applied to periods of projected benefit payments after June 30, 2027.

**Sensitivity of the State’s Proportionate Share of the EORP Net Pension Liability to Changes in the Discount Rate**—The following table presents the State’s and the State’s, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, proportionate share of the net pension liability calculated using the discount rate of 3.68 percent, as well as what the State’s and the State’s, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.68 percent) or 1 percentage point higher (4.68 percent) than the current rate (expressed in thousands):

	<b>1% Decrease (2.68%)</b>	<b>Current Discount Rate (3.68%)</b>	<b>1% Increase (4.68%)</b>
State’s proportionate share of the net pension liability	\$202,782	\$174,204	\$150,349
State’s proportionate share of the net pension liability, as a nonemployer contributing entity	153,504	131,871	113,812

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

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

**A. PLAN DESCRIPTION**

**Cost-sharing plans**

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

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

**Agent plans**

In addition to pension benefits described, the PSPRS and the CORP each provide a health insurance premium subsidy benefit to retired members and survivors, which are agent, multiple-employer defined benefit post-employment plans. Title 38, Chapter 5 of the A.R.S. assigns the authority to establish and amend the health insurance premium subsidy benefit provisions to the Arizona State Legislature. As of July 1, 2013, the PSPRS and the CORP each administers a separate healthcare plan as defined under IRC § 401(h). In addition, the PSPRS and the CORP are statutorily authorized, by A.R.S. § 38-857 and A.R.S. § 38-906, respectively, to maintain a separate account for the health insurance premium subsidy assets and benefit payments. The health insurance premium subsidy assets are accounted for by employer and are available to pay only the health insurance premium benefit. The PSPRS and the CORP each issue publicly available financial reports that include the financial information and disclosure requirements for the health insurance subsidy benefits. Information on how to obtain these reports is included in Note 1.A. However, the PSPRS and the CORP OPEB benefits are relatively insignificant to the State's financial statements and, therefore, are not further described in these notes.

**Single-employer plan**

The Arizona Department of Administration (ADOA) provides medical and accident benefits to retired State employees and their dependents, which is a single-employer defined benefit post-employment plan. Title 38, Chapter 4 of the A.R.S. assigns the authority to establish and amend the benefit provisions to the Arizona State Legislature. The ADOA pays the medical costs incurred by retired employees minus a specified premium amount, which is paid for entirely by the retiree or on behalf of the retiree, except for the NAU, which through the ADOA plan pays its medical costs directly. Premium rates are based on a blend of active employee and retiree experience, resulting in a contribution basis which is lower than the expected claim costs for retirees only, which results in an implicit subsidization of retirees by the State. As of June 30, 2017, the plan had 56,628 active employees and 7,573 retirees and dependents receiving benefits. ADOA does not issue a separate, publicly available financial report.

**B. SUMMARY OF SIGNIFICANT ACCCOUNTING POLICIES**

**Cost-sharing plan**

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

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**Single-employer plan**

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

**C. FUNDING POLICY**

**Cost-sharing plan**

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the A.R.S. These contribution requirements are established and may be amended by the Arizona State Legislature. For the year ended June 30, 2017, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 0.14% of the members' annual covered payroll for LTD. In addition, the State also contributed 0.56% for the HBS. The State's contributions for LTD to the ASRS for the years ended June 30, 2017, 2016, and 2015 were \$2.9 million, \$2.4 million, and \$2.4 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, 2017, 2016, and 2015 were \$11.6 million, \$10.1 million, and \$11.6 million, respectively, for the primary government which were equal to the required contributions for these years.

**Single-employer plan**

The ADOA's current funding policy is pay-as-you-go for OPEB benefits. There are no dedicated assets at this time to offset the actuarial accrued liability. To the extent that the calculated annual required contribution exceeds the annual pay-as-you-go cost of providing OPEB benefits, a net OPEB obligation is created. The State's contribution for the ADOA OPEB for the years ended June 30, 2017, 2016, and 2015 were \$29.1 million, \$24.3 million, and \$14.4 million, respectively, for the primary government.

**D. ANNUAL OPEB COST AND NET OPEB OBLIGATION**

The State's annual OPEB cost, OPEB contributions made, and changes in the State's net OPEB obligation of the ADOA single-employer defined benefit post-employment plan for the year ended June 30, 2017, are as follows (expressed in thousands):

Annual required contribution	\$ 143,439
Interest on net OPEB obligation	4,392
Adjustment to annual required contribution	<u>(7,253)</u>
Annual OPEB cost (expense)	140,578
Contributions made	<u>(29,058)</u>
Increase in net OPEB obligation	111,520
Net OPEB obligation-beginning of year	<u>146,379</u>
Net OPEB obligation-end of year	<u>\$ 257,899</u>

The State's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and the two preceding years of the ADOA single-employer defined benefit post-employment plan, are as follows (expressed in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2017	\$140,578	20.7%	\$ 257,899
6/30/2016	142,897	17.0%	146,379
6/30/2015	22,977	62.7%	27,780

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**E. FUNDED STATUS AND FUNDING PROGRESS**

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

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>(Unfunded) AAL</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>(Unfunded) AAL as a Percentage of Covered Payroll</u>
6/30/2016	-	\$ 1,182,155	\$ (1,182,155)	0.0%	\$ 3,496,022	(33.8)%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**F. ACTUARIAL METHODS AND ASSUMPTIONS**

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

The State’s actuarial methods and significant assumptions for the ADOA single-employer defined benefit post-employment plan for the most recent actuarial valuation are as follows:

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

**NOTE 7. LONG-TERM OBLIGATIONS**

**A. REVENUE BONDS**

**Governmental Activities**

**1. Department of Administration**

The State has pledged portions of its revenues towards the payment of debt service on the State Lottery Revenue Bonds Series 2010A. These bonds provide additional working capital to the State to pay appropriated expenditures of the State’s General Fund. The bonds are payable solely from and secured by pledged revenues consisting of, until July 1, 2012, amounts distributable to the State’s General Fund from the State Lottery pursuant to Lottery law, and from and after July 1, 2012, all Lottery revenues deposited to the Lottery Fund net of operating expenses of the Lottery. At June 30, 2017, pledged revenues totaled \$193.3 million, of which 17.5% (\$33.8 million) was required to cover debt service. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of July 1, 2029, is \$450.0 million.

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**2. Arizona Department of Transportation**

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.5 billion.

On October 6, 2016, the ADOT issued \$203.1 million of Highway Revenue Refunding Bonds, Series 2016, with an interest rate of 5.0% and serial maturities ranging from 2026 to 2036. Net proceeds amounted to \$256.2 million, after receipt of \$54.1 million of original issue premium, and payment of \$968 thousand of issuance costs and underwriter's discount. The net proceeds were used to refund, in advance of maturity, portions of the outstanding Series 2011A and Series 2013A Highway Revenue Bonds. The advance-refunding resulted in a debt service savings of \$21.8 million, and a net present value economic gain of \$17.6 million (difference between the present values of the old and new debt service payments). The advance-refunding also resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$28.4 million. This difference, reported as a deferred outflow of resources, is being amortized to interest expense on a straight-line basis through fiscal year 2036.

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 \$1.4 billion in outstanding Highway Revenue Bonds issued since 2011. Proceeds from the bonds finance portions of the ADOT's Five Year Transportation Facilities Construction Program. The bonds are payable solely from motor vehicle and related fuel fees and taxes and are payable through 2038. The total principal and interest remaining to be paid on the bonds is \$2.1 billion. Principal and interest paid for the current year and total pledged revenues were \$143.3 million and \$611.0 million, respectively. The annual principal and interest payments on the bonds required 23.5% of the pledged revenues.

The Maricopa County Regional Area Road Construction Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the ADOT. These bonds are secured by a portion of transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The balance of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$717.2 million.

On October 6, 2016, the ADOT issued \$109.9 million of Transportation Excise Tax Revenue Refunding Bonds, Series 2016, with an interest rate of 5.0% and serial maturities ranging from 2020 to 2025. Net proceeds amounted to \$133.1 million, after receipt of \$23.9 million of original issue premium, and payment of \$648 thousand of issuance costs and underwriter's discount. The net proceeds were used to refund, in advance of maturity, portions of the outstanding Series 2009, Series 2010, and Series 2011 Transportation Excise Tax Revenue Bonds. The advance-refunding resulted in a debt service savings of \$8.2 million, and a net present value economic gain of \$7.6 million (difference between the present values of the old and new debt service payments). The advance-refunding also resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$4.8 million. This difference, reported as a deferred outflow of resources, is being amortized to interest expense on a straight-line basis through fiscal year 2025.

The ADOT has pledged future transportation excise taxes to repay \$643.3 million in outstanding Transportation Excise Tax Revenue Bonds issued since 2009. Proceeds from the bonds pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, AZ. The bonds are payable solely from transportation excise taxes and are payable through 2025. The total principal and interest remaining to be paid on the bonds is \$791.6 million. Principal and interest paid for the current year and total pledged revenues were \$100.8 million and \$274.6 million, respectively. The annual principal and interest payments on the bonds required 36.7% of the pledged revenues.

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

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**3. School Facilities Board**

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

The SFB has pledged portions of its gross revenues towards payment of debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, and State school trust revenue refunding bonds outstanding at June 30, 2017. These bonds finance the correction of existing deficiencies in school facilities in the State of Arizona. These pledged revenues include Education Transaction Privilege Taxes approved by voters as part of Proposition 301 and expendable State School Trust Revenues. Expendable State School Trust Revenues include State Trust Lands' land lease revenue, interest earnings on land sales financed over time, and a formula distribution from the State's Permanent Fund prescribed by the State's Constitution. Pledged revenues do not include sales of State Trust Lands, sales of natural products derived from State Trust Lands, or royalties from minerals extracted from State Trust Lands. These revenues are held in perpetuity for the benefit of various beneficiaries of the State Land Trust and are not available to pay debt service. Expendable State School Revenues in excess of \$72.263 million are not available to pay debt service on the State school trust revenue refunding bonds per the debt documents. At June 30, 2017, pledged revenues totaled \$751.7 million, of which 11.6% (\$87.5 million) was required to cover current year debt service. Future pledged revenues required to pay all future debt service on these bonds through final maturity of July 1, 2020 are \$235.7 million.

**Business-Type Activities**

**4. Universities**

**a. University of Arizona**

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

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

On October 4, 2016, the U of A sold System Revenue Refunding Bonds Series 2016A (2016A Bonds) for \$44.175 million and System Revenue Bonds Series 2016B (2016B Green Bonds) for \$142.390 million dated November 8, 2016 as described in the following table. The purpose of issuing the 2016B as Green Bonds is to allow investors to invest directly in projects which the U of A has identified as promoting environmental sustainability on the U of A's campus.

<b>Series</b>	<b>Amount</b>	<b>Description</b>	<b>Interest Rate Range</b>	<b>Maturity Dates</b>
2016A	\$ 39,310,000	Serial Bonds	3.00-5.00%	2017-2036
	4,865,000	Term Bonds	4.00%	June 1, 2040
2016B	\$ 76,435,000	Serial Bonds	4.00-5.00%	2020-2038
	32,685,000	Term Bonds	4.00-5.00%	June 1, 2042
	33,270,000	Term Bonds	4.00-5.00%	June 1, 2046

The 2016A Bonds with maturity on or after June 1, 2027, are subject to optional redemption without premium. The 2016A Bonds with maturity on June 1, 2040 are subject to mandatory redemption without premium. The 2016A Bonds sold at a premium of \$6.537 million. The U of A realized net proceeds of \$50.421 million after payment of \$291 thousand for issuance costs and underwriter discounts. The net proceeds were used i) to purchase and renovate a real property near the University's campus, ii) to pay off a capital lease associated with buildings at the U of A's Phoenix Biomedical Campus, and iii) to refund in advance of maturity the remaining portion of the System Revenue Bonds Series 2007 totaling \$1.095 million and a portion of the System Bond



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Series 2008A and 2012A totaling \$4.940 million and \$9.650 million, respectively. The advance refunding generated a net present value economic gain of \$1.100 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The advance refunding decreases the U of A's annual debt service by an average of \$56 thousand. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.597 million. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense through the year 2040 using the straight-line method. The refunded System Revenue Bonds will be paid by investments held in an irrevocable trust with a combined carrying value of \$16.540 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

The 2016B Green Bonds with maturity on or after June 1, 2027, are subject to optional redemption without premium. The 2016B Green Bonds with maturity on June 1, 2042 and 2046 are subject to mandatory redemption without premium. The 2016B Green Bonds sold at a premium of \$23.469 million. The U of A realized net proceeds of \$165.000 million after payment of \$859 thousand for issuance costs and underwriter discounts. The net proceeds were used to finance the Health Sciences Innovation Building project.

In fiscal year 2015, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2008A. At June 30, 2017, the outstanding principal balance of the refunded bonds was \$13.270 million, which will be paid by investments held in an irrevocable trust with fair value of \$13.761 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

In fiscal year 2016, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2008A and 2009A. At June 30, 2017, the outstanding principal balance of the refunded bonds was \$174.600 million, which will be paid by investments held in an irrevocable trust with a fair value of \$186.028 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

The U of A's outstanding SPEED Revenue Bonds Series 2010 were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act (ARRA). As such, the U of A is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the U of A must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the U of A by the Federal government may be reduced or eliminated due to such issues as failure by the U of A to submit the required information, any amounts owed by the U of A to the Federal Government, or changes in the law that would reduce or eliminate such payments. Due to the federal sequestration, the U of A will receive a 6.9% reduction (totaling \$109 thousand) in the federal interest subsidy for the August 1, 2017 debt service payment and a 6.6% reduction (totaling \$205 thousand) in the federal interest subsidy for the February 1 and August 1, 2018 debt service payments.

The U of A has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2017. 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, 2017, pledged revenues totaled \$1.26 billion, of which 6.5% (\$82.5 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 5% of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2048 are \$1.86 billion.

**b. Northern Arizona University**

On March 14, 2017, the NAU sold \$33.340 million of Lease Revenue Refunding Bonds Series 2017 with an interest rate of 2.9%. Refunded bonds total \$31.335 million of the 2008 Pine Ridge Village/Campus Heights Lease Revenue Bonds for maturities from June 1, 2017 to June 1, 2033. The refunding set aside \$33.036 million that purchased Treasury Notes that matured between 5/31/2017 and 5/31/2018. The present value of refunded debt prior to 3/14/2017 was \$46.219 million and the net present value of savings was \$3.061 million. The advanced refunding decreases the NAU's debt service by an average of \$1.496 million annually for fiscal years 6/30/2017 through 6/30/2018 and decreases debt service by an average of \$8 thousand annually for fiscal years 6/30/2019 through 6/30/2033.

On March 9, 2017, the NAU sold \$42.970 million of System Revenue and Refunding Bonds Series 2017 with an interest rate of 2.9%. System Revenue Refunding Bonds Series 2006 refunded bonds total \$41.670 million with maturity dates of June 1, 2017 to June 1, 2034. The refunding was a private placement with JP Morgan Chase. The refunding set aside \$42.653 million into Global

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Proceeds Escrow that matured 6/1/2017. The present value of prior refunded debt was \$62.233 million and the net present value of savings was \$5.480 million. The advanced refunding decreases the NAU's debt service by an average of \$1.869 million annually for fiscal years 6/30/2017 through 6/30/2019 and decreases debt service by an average of \$3 thousand annually for fiscal years 6/30/2020 through 6/30/2034.

In the current and prior years, the NAU defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. As of June 30, 2017, \$63.750 million of such bonds outstanding are considered defeased.

The Series 2009A and 2010 Bonds were issued as designated Build America Bonds under the provisions of the ARRA. As such, the NAU is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the NAU must file certain required information with the Federal Government between 90 and 45 days prior to the interest payment date. The amount paid to the NAU by the Federal Government may be reduced or eliminated due to such issues as failure by the NAU to submit the required information, any amounts owed by the NAU to the Federal Government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2017, the Federal Government reduced federal direct payment claims filed between October 1, 2016 and September 30, 2017 by 6.9% due to the federal budget sequestration resulting in a \$257 thousand reduction in direct payments to the NAU. For accounting purposes, any direct payments received from the U.S. Treasury Department are recorded as non-operating revenue.

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

The NAU has pledged portions of its gross revenues towards the payment of debt related to system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2017. The bonds generally provide financing for various capital projects of the NAU. These pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. Pledged revenues have averaged \$272 million for the prior five years. For fiscal year 2017, pledged revenues totaled \$313 million, of which 10.2% (\$31.9 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 8.8% of pledged revenues. Future pledged revenues required to pay all remaining related debt service for the bonds through final maturity of June 1, 2044 is \$745.3 million.

**c. Arizona State University**

As of June 30, 2017, the ASU had issued a combination of fixed and variable rate bonds, of which \$1.4 billion is outstanding. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date. Certain revenue bonds of the ASU have been defeased through advance refundings by depositing sufficient U.S. Government securities in an irrevocable trust to pay all future debt service. Accordingly, the liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of defeased bonds outstanding at June 30, 2017 totaled \$117.6 million.

The ASU has pledged gross revenues as defined in the bond indentures towards the payment of debt related to various senior lien system revenue bonds and subordinate bonds outstanding at June 30, 2017. These related system revenue bonds are primarily for new academic and research facilities, academic and laboratory renovations, and infrastructure improvements. The pledged revenues include student tuition and fees, certain auxiliary enterprise revenue, net investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues. For the year ended June 30, 2017, pledged revenues totaled \$1.6 billion, of which 5.6 percent (\$86.1 million, net of federal direct payments) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the ASU's senior and subordinate revenue bonds through final maturity of July 1, 2046 total \$2.3 billion. In addition to a senior pledge of revenues for ASU system revenue bonds, the ASU has pledged the same revenues on a subordinated basis to secure the ASU SPEED revenue bonds and the Series 2006 ASU Research Park, Inc. Development Refunding Bonds. Research Park bonds outstanding at June 30, 2017 totaled \$4.2 million with annual debt service payments of approximately \$1.2 million through July 1, 2021.

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

In August 2016, the ASU issued \$226.2 million of system revenue bonds, Series 2016B/C, with an average maturity of 18.7 years and an average interest rate of 3.25%. The bonds were issued to fund Phase 3 of the Sun Devil Stadium Renovation project, the construction of Biodesign C and Student Pavilion buildings, and various infrastructure and research projects.

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the ARRA. As such, the ASU is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35% of the interest owed on each interest payment date. The amount paid to the ASU by the Federal government may be reduced or limited due to such issues as failure by the ASU to submit the required information, offsets to reflect any amounts owed by the ASU to the Federal government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2017, the ASU received Federal Direct Payments totaling \$3.6 million, net of a \$300 thousand or 6.9 % reduction due to the federal budget sequestration. For accounting purposes, any direct payments received from the U.S. Treasury are recorded as non-operating revenue.

The ASU has two series of variable rate demand system revenue refunding bonds outstanding, Series 2008A and Series 2008B, totaling \$85.9 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2017 was 0.88 percent for the Series 2008A bonds and 0.88 percent for the Series 2008B bonds. The ASU’s variable rate demand bonds have remarketing features which allow bondholders to put debt back to the ASU. In accordance with GASB Interpretation No. 1, Demand Bonds Issued by State and Local Government Entities, the total outstanding principal balance for variable rate demand bonds is required to be classified as a current liability. As of May 4, 2016, the ASU executed a self-liquidity facility agreement to provide liquidity if the bonds are put by bondholders. It is the ASU’s intent to repay its variable rate demand bonds in accordance with the maturities set forth in the official statement; however, in the absence of a “take out agreement” the ASU has classified the total outstanding principal balance of the 2008 bonds as a current liability.

Securities and cash restricted for bonds debt service held by the trustee at June 30, 2017 totaled \$65.2 million.

Effective January 1, 2007, the ASU entered into a \$103 million notional amount swap agreement (hedging derivative instrument) expiring on July 1, 2034, in conjunction with the 2008 variable rate demand system revenue refunding bonds (2008 Bonds). The outstanding \$85.4 million notional amount at June 30, 2017 is not exchanged; it is only the basis on which the interest payments are calculated and it decreases as principal payments are made on the 2008 Bonds. The intention of the swap is to effectively convert the variable rate interest on the 2008 Bonds to a synthetic fixed rate. Under the terms of the swap agreement, the ASU pays the counterparty interest calculated at a fixed rate of 3.91 percent and receives payments from the counterparty based on the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index set weekly. The SIFMA rate at June 30, 2017 was 0.91 percent. At June 30, 2017, the synthetic fixed interest rate on the bonds was:

<b>Interest Rate Swap</b>	<b>Terms</b>	<b>Rates (%)</b>
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(0.91)
Net interest rate swap payments		3.00
Variable-rate bond coupon payments	Spread to SIFMA	0.88
Synthetic fixed interest rate on bonds		3.88

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

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

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As of June 30, 2017, the ASU was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the ASU would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch, A by S&P, and A1 by Moody's as of June 30, 2017. Based on current ratings, the counterparty was not required to provide collateral. In the event a rating downgrade occurs, the counterparty may be required to provide collateral if the ASU's overall exposure exceeds predetermined levels. Collateral may be held by the ASU or a third party custodian.

As of June 30, 2017, the swap had a fair value of \$(15.4) million, which represents the cost to the ASU to terminate the swap. The June 30, 2016 fair value was \$(23.2) million. The fair value was developed by an independent third party, with no vested interest in the transaction, using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. In accordance with GASB 53, as amended by GASB 63, the fair value of the ASU's hedging derivative instrument is reported on the statement of net position as a deferred outflow of resources (interest rate swap) and a liability (derivative instrument - interest rate swap).

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2017 (expressed in thousands):

<b>Revenue Bonds Outstanding</b>	<b>Dates Issued</b>	<b>Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance at June 30, 2017</b>
<b>Governmental Activities:</b>				
Department of Transportation	2009-2017	2018-2038	1.63-5.00%	\$ 2,078,935
School Facilities Board	2003-2013	2018-2020	0.35-5.00%	227,785
Department of Administration	2010	2018-2029	3.25-5.00%	333,610
<b>Business-type Activities:</b>				
University Revenue Bonds	2004-2017	2018-2049	0.88-6.64%	3,010,525

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2017 are as follows (expressed in thousands):

<b>Annual Debt Service</b>							
<b>Governmental Activities</b>				<b>Business-type Activities</b>			
<b>Fiscal Year</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Net Payments (Receipts) on Swap Agreement</b>	<b>Total</b>
2018	\$ 268,565	\$ 120,349	\$ 388,914	\$ 83,825	\$ 142,025	\$ 2,472	\$ 228,322
2019	234,145	111,387	345,532	88,805	138,748	2,376	229,929
2020	242,365	102,901	345,266	105,655	134,697	2,276	242,628
2021	187,050	93,644	280,694	105,785	129,999	2,171	237,955
2022	196,405	84,294	280,699	110,605	125,039	2,060	237,704
2023-2027	861,810	274,333	1,136,143	632,455	537,550	8,434	1,178,439
2028-2032	459,975	106,461	566,436	629,110	381,749	4,706	1,015,565
2033-2037	169,135	26,233	195,368	536,175	241,654	617	778,446
2038-2042	20,880	1,044	21,924	420,665	118,638	-	539,303
2043-2047	-	-	-	280,285	29,430	-	309,715
2048-2049	-	-	-	17,160	452	-	17,612
<b>Total</b>	<b>\$ 2,640,330</b>	<b>\$ 920,646</b>	<b>\$ 3,560,976</b>	<b>\$ 3,010,525</b>	<b>\$ 1,979,981</b>	<b>\$ 25,112</b>	<b>\$ 5,015,618</b>

**B. GRANT ANTICIPATION NOTES**

Grant Anticipation Notes (GANs) are issued by the ADOT and secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The balance of GANs issued in prior years and outstanding at the start of the fiscal year was \$147.3 million.

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On October 6, 2016, the ADOT issued \$90.4 million of Grant Anticipation Refunding Notes, Series 2016, with an interest rate of 5.0% and serial maturities ranging from 2021 to 2026. Net proceeds amounted to \$112.1 million, after receipt of \$22.2 million of original issue premium, and payment of \$522 thousand of issuance costs and underwriter’s discount. The net proceeds were used to refund, in advance of maturity, portions of the outstanding Series 2011A GANs. The advance-refunding resulted in a debt service savings of \$10.7 million, and a net present value economic gain of \$9.8 million (difference between the present values of the old and new debt service payments). The advance-refunding also resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$11.0 million. This difference, reported as a deferred outflow of resources, is being amortized to interest expense on a straight-line basis through fiscal year 2026.

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

The ADOT has pledged federal revenues to repay \$129.5 million in outstanding GANs. Proceeds from the GANs pay the costs of design, right-of-way purchase, or construction of certain freeways and other routes within Arizona. The GANs are payable solely from federal revenues and are payable through 2026. The total principal and interest remaining to be paid on the GANs is \$163.4 million. Principal and interest paid for the current year and total pledged revenues were \$17.6 million and \$718.1 million, respectively. The annual principal and interest payments on the GANs required 2.5% of the pledged revenues.

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

<u>Grant Anticipation Notes Outstanding</u>	<u>Dates Issued</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Outstanding Balance at June 30, 2017</u>
Governmental Activities:				
Department of Transportation	2011-2017	2018-2026	4.00-5.00%	\$ 129,475

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

<u>Annual Debt Service</u>			
<u>Governmental Activities</u>			
<u>Fiscal Year</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Total Debt Service</u>
2018	\$ 12,325	\$ 6,422	\$ 18,747
2019	12,925	5,824	18,749
2020	13,545	5,206	18,751
2021	13,330	4,531	17,861
2022	14,000	3,868	17,868
2023-2026	63,350	8,112	71,462
Total	<u>\$ 129,475</u>	<u>\$ 33,963</u>	<u>\$ 163,438</u>

**C. CERTIFICATES OF PARTICIPATION**

**Governmental Activities**

**1. Department of Administration**

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

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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 October 12, 2016, the State issued COPs Series 2016 (2016 COPs) for \$119.9 million. The 2016 COPs include serial certificates with interest rates ranging from 2.00% to 5.00% and maturity dates from 2017 to 2025. The 2016 COPs are subject to extraordinary redemption prior to maturity pursuant to the debt documents. The State realized net proceeds from the 2016 COPs of \$136.1 million after receipt of \$17.1 million of original issue premium and payment of \$845 thousand for underwriters' discount and issuance costs. The net proceeds were used to pay a portion of the purchase option price for the Department of Correction's Kingman Prison.

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

## **2. School Facilities Board**

The SFB Series 2010 COPs are not subject to mandatory sinking fund prepayment. However, as a means to provide a source of funds that will be available to pay the principal with respect to the Series 2010 COPs at maturity, the lease agreement with the trustee for the 2010 COPs will provide for mandatory sinking fund payments to be made as part of the base rent due under the lease. The SFB Series 2010 COPs are subject to extraordinary mandatory prepayment from unexpended proceeds pursuant to the debt documents. On February 6, 2014, the SFB redeemed \$9.5 million of the Series 2010 COPs pursuant to the extraordinary mandatory prepayment provisions in the debt documents. Beginning August 15, 2012, annual deposits to the sinking fund were scheduled to be made on August 15 of each year through August 15, 2027, at which time, the accumulated balance (including investment earnings and losses) in the sinking fund will be sufficient to retire the Series 2010 COPs on their stated maturity date of September 1, 2027. The sinking fund deposit requirements were adjusted to reflect the extraordinary mandatory prepayment redemption which occurred on February 6, 2014. All proceeds received from the issuance of the Series 2010 COPs have been expended as of June 30, 2015. As a result, the extraordinary mandatory prepayment discussed above no longer applies. All other prepayment provisions remain in force pursuant to the debt documents.

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

## **Business-Type Activities**

### **3. Universities**

#### **a. University of Arizona**

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

#### **b. Northern Arizona University**

In prior fiscal years, the NAU defeased certain COPs by either placing the proceeds of new COPs, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded COPs. Accordingly, the trust account assets and liability for the defeased COPs are not included in the accompanying financial statements.

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**c. Arizona State University**

At June 30, 2017, the ASU has issued fixed rate COPs. The ASU's long-term obligations generally are structured with level debt service, semi-annual interest, and call options at a prescribed date.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2017 totaled \$7.6 million.

A summary of the COPs issued as of June 30, 2017 is as follows (expressed in thousands):

<b>Project</b>	<b>Issue Date</b>	<b>Final Maturity</b>	<b>Original Amount Issued</b>	<b>Outstanding Balance</b>	<b>Interest Rates</b>
<b>Governmental Activities:</b>					
Department of Administration:					
4000 Bed Prison, Wastewater Upgrades, Forensic Unit 2008A	2008	2028	\$ 238,990	\$ 43,360	4.00 – 5.00%
General Fund Budget Reconciliation 2010A	2010	2030	709,090	570,630	3.75 – 5.25
General Fund Budget Reconciliation 2010B	2010	2030	289,705	231,470	3.00 – 5.00
Refund 2001 PLTO, 2002A/2004B COPs	2013	2029	62,630	36,840	3.00 – 5.00
Refund 2005 Gov Office Lease Rev Capitol Mall, 2008A COP	2016	2028	163,995	158,075	3.00 – 5.00
Kingman Prison 2016	2017	2025	119,880	113,030	2.00 – 5.00
School Facilities Board:					
New School Construction 2008	2009	2019	580,035	85,190	4.63 – 5.75
Refunding Certificates of 2003B	2011	2020	11,100	11,100	3.00 – 3.50
Refunding Certificates of 2004B	2011	2020	10,000	10,000	3.00 – 5.00
Refunding Certificates of 2008	2011	2020	37,685	37,685	3.00 – 5.00
Qualified School Construction 2010	2011	2028	91,325	81,820	6.00
Refunding Certificates of 2003B and 2004A	2014	2020	29,945	4,700	5.00
Refunding Certificates of 2004B and 2004C	2014	2020	49,605	17,205	5.00
Refunding Certificates of 2005A-1	2014	2018	110,695	89,850	1.47
Refunding Certificates of 2005A-2	2014	2019	60,390	37,575	2.08
Refunding Certificates of 2005A-3	2014	2020	55,040	18,030	2.38
Refunding Certificates of 2008	2016	2024	263,545	257,835	2.35 – 5.00
<b>Total Governmental Activities</b>			<b>\$ 2,883,655</b>	<b>\$ 1,804,395</b>	
<b>Business-type Activities:</b>					
Arizona State University:					
2002 Certificates of Participation	2002	2019	\$ 103,800	\$ 200	4.76%
2006 Certificates of Participation	2006	2031	15,810	10,845	4.53
2006 Refunding Certificates of Participation	2007	2027	65,890	50,025	4.15
2011A Mercado Refunding Certificates of Participation	2011	2025	8,465	5,630	4.27
2013 A/B Refunding Certificates of Participation	2013	2027	64,780	62,620	3.09
2014 A/B Refunding Certificates of Participation	2015	2031	84,525	72,970	3.04
University of Arizona:					
Fixed Student Union	1999	2020	21,607	266	5.13
Biomedical Research Collaborative Bldg. Project	2006	2031	18,240	12,790	4.15 – 5.00
Refund COPs 2001B, 2002A, 2004B	2007	2031	93,045	65,950	4.00 – 4.50
Refund COPs 2003A	2012	2022	10,190	6,065	2.48 – 3.42
Refund COPs 2002B	2012	2023	20,600	14,450	4.00 – 5.00
Refund COPs 2003B & 2004A	2012	2031	124,940	115,670	3.00 – 5.00
Refund COPs 2005A-2005D, 2005F-2005I, 2006A-2006C, & 2006E	2015	2025	89,470	73,885	5.00
Refund COPs 2006C, 2006D, & 2007A	2015	2025	13,810	13,100	1.35 – 3.09
Northern Arizona University:					
2013 Refunding Certificates of Participation	2013	2031	36,005	35,990	4.78
2015 Refunding Certificates of Participation	2015	2031	18,825	17,050	4.92
<b>Total Business-type Activities</b>			<b>\$ 790,002</b>	<b>\$ 557,506</b>	

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Principal and interest debt service requirements on COPs outstanding at June 30, 2017 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
2018	\$ 219,170	\$ 79,680	\$ 298,850	\$ 48,460	\$ 24,196	\$ 72,656
2019	191,545	72,075	263,620	51,085	22,130	73,215
2020	194,345	63,933	258,278	53,256	19,899	73,155
2021	136,970	56,223	193,193	50,215	17,379	67,594
2022	144,075	49,200	193,275	50,780	14,907	65,687
2023-2027	580,955	152,678	733,633	181,750	44,773	226,523
2028-2031	337,335	21,154	358,489	121,960	10,689	132,649
Total	\$ 1,804,395	\$ 494,943	\$ 2,299,338	\$ 557,506	\$ 153,973	\$ 771,479

**D. LEASES**

**1. Leases**

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

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

The future minimum lease payments for long-term capital leases as of June 30, 2017 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2018	\$ 29,910	\$ 11,315
2019	27,992	11,075
2020	25,577	11,041
2021	21,743	11,048
2022	18,252	10,945
2023-2027	62,160	55,321
2028-2032	47,350	49,801
2033-2037	12,116	23,733
2038-2042	-	2,352
2043-2072	-	4,261
Total minimum lease payments	245,100	190,892
Less: amount representing interest	(30,016)	(56,493)
Present Value of Net Minimum Lease Payments	\$ 215,084	\$ 134,399



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

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Land	\$ 10	\$ 8,241
Buildings	221,048	196,832
Software	3,579	-
Equipment	92,652	982
	<u>317,289</u>	<u>206,055</u>
Less: accumulated depreciation	<u>(68,738)</u>	<u>(55,450)</u>
Carrying Value	<u>\$ 248,551</u>	<u>\$ 150,605</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 2017, the State paid for compensated absences as follows: 78.13% from the General Fund, 15.59% from other funds, and 6.28% 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, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year	Due Thereafter
<b>Governmental Activities:</b>						
Long-term Debt:						
Revenue bonds	\$ 2,899,875	\$ 312,900	\$ (572,445)	\$ 2,640,330	\$ 268,565	\$ 2,371,765
Grant anticipation notes	147,320	90,410	(108,255)	129,475	12,325	117,150
Certificates of participation	1,891,460	119,880	(206,945)	1,804,395	219,170	1,585,225
Capital leases	334,909	59,622	(179,447)	215,084	25,013	190,071
Installment purchase contracts	176	-	(176)	-	-	-
Notes payable	22,179	-	-	22,179	-	22,179
Premiums and discounts on debt	492,349	117,390	(93,283)	516,456	49,684	466,772
<b>Total Long-term Debt</b>	<b>5,788,268</b>	<b>700,202</b>	<b>(1,160,551)</b>	<b>5,327,919</b>	<b>574,757</b>	<b>4,753,162</b>
Other Long-term Liabilities:						
Compensated absences	322,255	177,038	(197,142)	302,151	147,990	154,161
Pollution remediation obligations	25,160	-	(18,637)	6,523	3,952	2,571
Accrued relocation costs	-	31,863	-	31,863	-	31,863
<b>Total Other Long-term Liabilities</b>	<b>347,415</b>	<b>208,901</b>	<b>(215,779)</b>	<b>340,537</b>	<b>151,942</b>	<b>188,595</b>
<b>Total Long-term Obligations</b>	<b>\$ 6,135,683</b>	<b>\$ 909,103</b>	<b>\$ (1,376,330)</b>	<b>\$ 5,668,456</b>	<b>\$ 726,699</b>	<b>\$ 4,941,757</b>
<b>Business-type Activities:</b>						
Long-term Debt:						
Revenue bonds	\$ 2,701,665	\$ 489,105	\$ (180,245)	\$ 3,010,525	\$ 166,690	\$ 2,843,835
Certificates of participation	600,556	-	(43,050)	557,506	48,460	509,046
Capital leases	141,117	562	(7,280)	134,399	5,752	128,647
Installment purchase contracts	2,114	-	(654)	1,460	692	768
Premiums and discounts on debt	268,474	83,160	(26,222)	325,412	24,754	300,658
<b>Total Long-term Debt</b>	<b>3,713,926</b>	<b>572,827</b>	<b>(257,451)</b>	<b>4,029,302</b>	<b>246,348</b>	<b>3,782,954</b>
Other Long-term Liabilities:						
Compensated absences	97,382	110,251	(105,630)	102,003	17,661	84,342
U of A capital commitments	22,424	-	(3,500)	18,924	3,750	15,174
<b>Total Other Long-term Liabilities</b>	<b>119,806</b>	<b>110,251</b>	<b>(109,130)</b>	<b>120,927</b>	<b>21,411</b>	<b>99,516</b>
<b>Total Long-term Obligations</b>	<b>\$ 3,833,732</b>	<b>\$ 683,078</b>	<b>\$ (366,581)</b>	<b>\$ 4,150,229</b>	<b>\$ 267,759</b>	<b>\$ 3,882,470</b>

The above long-term obligations relating to governmental activities include internal service funds. Amounts for capital leases and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position because \$2.266 million of capital leases and \$161.848 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net position.

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**NOTE 8. INTERFUND TRANSACTIONS**

**INTERFUND BALANCES AND TRANSFERS**

**Interfund Receivables/Payables**

Interfund balances as of June 30, 2017 are as follows (expressed in thousands):

<b>Due From</b>	<b>Due To</b>						
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-Major Governmental Funds	Universities Fund	Non-Major Enterprise Fund	Internal Service Funds	Total Due To
General Fund	\$ -	\$ 23,757	\$ 66,719	\$ -	\$ -	\$ 1,510	\$ 91,986
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	4,393	-	6,673	-	177	-	11,243
Land Endowments Fund	35	-	13,398	-	-	-	13,433
Non-Major Governmental Funds	11,736	-	1,191	-	-	165	13,092
Non-Major Enterprise Funds	2,782	-	5,661	39,927	-	-	48,370
Internal Service Funds	25	712	-	-	-	36	773
<b>Total Due From</b>	<b>\$ 18,971</b>	<b>\$ 24,469</b>	<b>\$ 93,642</b>	<b>\$ 39,927</b>	<b>\$ 177</b>	<b>\$ 1,711</b>	<b>\$ 178,897</b>

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

**Interfund Transfers**

Transfers for the year ended June 30, 2017 are as follows (expressed in thousands):

<b>Transferred From</b>	<b>Transferred To</b>					
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-Major Governmental Funds	Universities Fund	Internal Service Funds	Total Transfers Out
General Fund	\$ -	\$ 4,676	\$ 238,384	\$ 679,579	\$ 19	\$ 922,658
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	-	-	273,873	-	-	273,873
Land Endowments Fund	2,125	-	25,804	-	-	27,929
Non-Major Governmental Funds	71,805	315	6,951	-	-	79,071
Non-Major Enterprise Funds	81,607	-	68,517	39,927	-	190,051
Internal Service Funds	91,242	-	942	-	-	92,184
<b>Total Transfers In</b>	<b>\$ 246,779</b>	<b>\$ 4,991</b>	<b>\$ 614,471</b>	<b>\$ 719,506</b>	<b>\$ 19</b>	<b>\$ 1,585,766</b>

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

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<b>NOTE 9. ACCOUNTING CHANGES</b>
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**A. FUND FINANCIAL STATEMENTS**

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

	<b>Proprietary Funds</b>
	<b>Universities</b>
Net Position, as previously reported	\$ 2,481,928
Change in reporting entity	13,343
Net Position, as restated	\$ 2,495,271

**B. GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

	<b>Business-type Activities</b>
Net Position, as previously reported	\$ 3,228,120
Change in reporting entity	13,343
Net Position, as restated	\$ 3,241,463

**Change in Reporting Entity**

Beginning net position for the Universities has been restated due to a change in reporting entity. The Thunderbird, previously reported as a discrete component unit of the State affiliated with the Universities, is blended with the Universities financial statements. This resulted in an increase of \$13.3 million to beginning net position. In the restatement of net position, is the original Thunderbird beginning net asset balance of \$30.3 million less the estimation of the ASU’s equity interest in the Thunderbird of \$17.0 million. For fiscal year 2017, it was determined that the Thunderbird primarily exists to benefit the ASU by providing a framework for global education programming. Additional information can be found within Note 16.J.

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**NOTE 10. GOVERNMENTAL FUND BALANCES**

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet for the year ended June 30, 2017 are as follows (expressed in thousands):

	<b>General Fund</b>	<b>Transportation &amp; Aviation Planning, Highway Maintenance &amp; Safety Fund</b>	<b>Land Endowments Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total</b>
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventory	\$ 9,990	\$ 40	\$ -	\$ -	\$ 10,030
Permanent fund principal	-	-	5,603,580	-	5,603,580
<b>Restricted for:</b>					
General government	10,775	-	-	33,946	44,721
Health and welfare	127,874	-	-	43,487	171,361
Inspection and regulation	4,320	-	-	2,000	6,320
Education	4,958	-	-	456,588	461,546
Protection and safety	18,220	-	-	-	18,220
Natural resources	2,123	-	-	8,307	10,430
Debt service	-	-	-	88,263	88,263
Capital projects	-	844,672	-	2,443	847,115
School facilities improvements	21,051	-	-	-	21,051
<b>Committed to:</b>					
General government	-	-	-	147,813	147,813
Health and welfare	12,121	-	-	232,134	244,255
Inspection and regulation	1,004	-	-	146,279	147,283
Education	18,131	-	-	-	18,131
Protection and safety	-	-	-	78,588	78,588
Transportation	-	279,052	-	-	279,052
Natural resources	20,685	-	-	80,704	101,389
School facilities improvements	41,402	-	-	-	41,402
<b>Unassigned:</b>	(258,262)	-	(18,752)	-	(277,014)
<b>Total Fund Balances</b>	<b>\$ 34,392</b>	<b>\$ 1,123,764</b>	<b>\$ 5,584,828</b>	<b>\$ 1,320,552</b>	<b>\$ 8,063,536</b>

**NOTE 11. DEFICIT NET POSITION**

The Risk Management Fund (RMF), an internal service fund, reported a deficit net position of \$376.9 million primarily due to the RMF receiving annual funding only for expected paid insurance losses (including loss adjustment expenditures) within the State's self-insured retention for the specific fiscal year. Accrued insurance losses of the RMF beyond the specific fiscal year are not considered when determining funding for each fiscal year.

The Retiree Accumulated Sick Leave Fund (RASL), an internal service fund, pays retirees for their accumulated sick leave upon retirement from State service when they meet certain criteria. Beginning with fiscal year 2008, the State applied the provisions of GASB Statement No. 16, *Accounting for Compensated Absences* to the RASL. This results in a liability in the RASL which is significantly greater than the actual funding of the RASL, because the liability is based upon an estimate of the total RASL benefit earned by existing employees at the balance sheet date; however, State agencies pay for only one year based on a 0.40% charge on gross payroll. The \$156.6 million deficit net position is primarily due to the above funding mechanism.

The Telecommunication Fund, an internal service fund, reported a deficit of \$427 thousand as a result of recognition of net pension liability.

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**NOTE 12. JOINT VENTURES**

**A. LARGE BINOCULAR TELESCOPE CORPORATION**

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

The U of A has committed resources equivalent to 25% of the LBT's construction costs and annual operating costs. As of June 30, 2017, the U of A has made cash contributions of \$18.2 million toward the project's initial construction costs and subsequent contributions of services and materials of \$3.2 million, which were recorded as non-current investments on the Statement of Net Position. The U of A's financial interest represents its future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment has commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, \$1.5 million in calendar year 2017, as a reduction in its investment. At June 30, 2017, the investment totaled \$12.5 million. According to the most recent audited financial statements of the LBT for the year ended December 31, 2016, assets, liabilities, revenues, and expenses totaled \$125.0 million, \$3.0 million, \$15.0 million, and \$19.0 million, respectively.

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

**B. GIANT MAGELLAN TELESCOPE ORGANIZATION**

The Giant Magellan Telescope Organization (GMTO) is a non-stock, nonprofit, jointly governed corporation founded to own and administer the planning, design, construction, and operation of the 25-meter Giant Magellan Telescope, a proposed astronomical telescope and its associated buildings, equipment and instrumentation, to be located in northern Chile. The GMTO is jointly governed by several leading educational and research institutions from the United States, South Korea, and Australia, including the U of A. The U of A comprises two of the fourteen members of the GMTO Board of Directors, and is one of eleven founders and participants. The GMTO will hold all rights, title and interest to and in the telescope. Although the U of A does not have a defined equity interest, as a founder the U of A will receive viewing rights to the telescope in proportion to their voluntary contributions to the project. The U of A has recognized an intangible asset related to the costs incurred during the design, development, and construction/commissioning phases. The U of A has also signed an agreement outlining future capital commitments to the GMTO between June 2016 and June 2022. Capital commitments in the amount of \$18.9 million related to the GMT as of June 30, 2017 are reported in Note 7.F.

The U of A has contributed a total of \$41.1 million as of June 30, 2017. The U of A has been and will be responsible for manufacturing the telescope's mirrors and will receive compensation from other GMTO founders and participants based on individual contractual agreements. As of June 30, 2017, the U of A has received contractual payments related to the project from the GMTO and related partners totaling \$61.5 million. Contractual payments were for projects related to mirror construction and process development and include the acquisition of glass and mold materials, the development of mirror testing systems, design study, and engineering support.

**NOTE 13. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE**

**A. INSURANCE LOSSES**

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

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

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

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

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

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund and the Special Fund. As discussed in the above paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Division will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Assessments on gross premium revenues and settlement income primarily fund the Special Fund. To provide funding for the payment of these workers' compensation benefits, the Special Fund may direct the payment of assessments into the State Treasury under A.R.S. § 23-1065(A) (general liability assessment – not to exceed 1.0%) and A.R.S. § 23-1065(F) (apportionment assessment - not to exceed .5%), in a total amount not to exceed 1.5% of all premiums received by private insurance carriers and what would have been paid by self-insured employers if they had been fully insured by an insurance carrier authorized to transact workers compensation insurance during the immediately preceding calendar year. The Special Fund was determined to be actuarially sound as of June 30, 2015 and as a result did not levy an A.R.S. § 23-1065(A) or A.R.S. § 23-1065(F) assessment for calendar year 2016 or calendar year 2017. Assessment revenues recorded on the financial statements for fiscal year 2017 are for calendar year 2015 assessments.

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2017. The total estimated loss reserve of \$263.9 million increased by 13.9%, or \$32.3 million, over the prior year estimated loss reserve of \$231.6 million. The total Compensation reserve increased \$47.9 million. During fiscal year 2016, older Compensation reserves were closed out prior to the implementation of a new software program and during fiscal year 2017 more accurate Compensation reserves were established. This increase was offset somewhat by a \$10.7 million decrease in the Uninsured reserves, due to strengthened reserving practices for "lifetime" claims, and a \$5.4 million decrease in Medical Pre-1973 reserves due to the decrease in reported reserves and the elimination of "incurred but not reported" claims. There were no other major shifts in any of the other award categories. A confidence level of 80 percent was used in calculating medical and compensation related liabilities. A confidence level of 80 percent indicates a confidence that the estimated liability will be adequate to cover actual costs 80 out of 100 years. The reserves are discounted at an assumed rate of .17% percent for the compensation benefits and zero percent for the medical benefits. For medical benefits, it is assumed that the inflation in medical costs will equal the investment return earned by the Special Fund on those reserves.

The Special Fund has filed proofs of claim with bankruptcy trustees for bankrupt self-insured employers. Additionally, the Special Fund has filed proofs of claim with ancillary receivers and liquidators regarding the recovery of statutory deposits and other monies

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for insurance carrier insolvencies that the Special Fund was responsible for prior to July 1, 2015. Effective July 1, 2015, the responsibility for insolvent carriers was transferred to the Department of Insurance Guaranty Fund. Since the actual amount that will ultimately be received cannot be determined, the Special Fund will continue to recognize receipt of insolvent carrier and bankrupt self-insured employer deposits as revenue at the time received rather than recording a receivable.

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

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

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2016 and June 30, 2017 (expressed in thousands):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
Risk Management Fund:				
2016	\$ 457,389	\$ 65,607	\$ (82,416)	\$ 440,580
2017	440,580	74,501	(73,464)	441,617
Industrial Commission Special Fund:				
2016	219,031	23,808	(11,217)	231,622
2017	231,622	44,434	(12,163)	263,893
Insurance Department Guaranty Funds:				
2016	251,572	(90,780)	(11,874)	148,918
2017	148,918	13,176	(13,236)	148,858

**B. LITIGATION**

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

**C. ACCUMULATED SICK LEAVE**

Sick leave includes any approved period of paid absence granted to an employee due to illness, injury, or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of at least 500 hours, with a maximum of 1,500 hours, upon retirement directly from State service. The benefit value is calculated by taking the State employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25% for 500 hours to a maximum of 50% for 1,500 hours. The maximum benefit value is \$30 thousand. The benefit shall be paid either in a lump sum or in installments over a three-year period. The RASL Fund is accounted for in the financial statements as an internal service fund and accounts for the retiree accumulated sick leave liability of \$159.5 million at June 30, 2017.



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**D. UNCLAIMED PROPERTY**

The State of Arizona’s Uniform Unclaimed Property Act requires the deposit of certain unclaimed assets into a managed agency fund. A total of approximately \$1.4 billion (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at \$40.8 million and mutual funds valued at \$21.6 million. In accordance with A.R.S. § 44-313 and A.R.S. § 44-314, for fiscal year 2017, \$24.5 million was deposited in the Department of Revenue Administrative Fund, \$2.5 million was deposited in the Housing Trust Fund, \$2.0 million was deposited in the Seriously Mentally Ill Housing Trust Fund, \$48.8 million was deposited in the General Fund, and \$1.3 million was deposited in other funds as required by State statute. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. At June 30, 2017, \$538.6 million of this liability is reported in the General Fund, because it is the fund to which the property ultimately escheats in Arizona.

**E. CONSTRUCTION COMMITMENTS**

The ADOT had outstanding commitments under construction contracts of \$2.3 billion at June 30, 2017. In fiscal year 2017, the ADOT significantly changed its methodology for disclosing commitments. Roadway area designations have been replaced with classifying commitments first by segregating between local government assistance and State Highway construction and related phases commitments, and then further classifying commitments by phase of constructions, as presented in the following table (expressed in thousands):

	<b>Remaining Commitments</b>
Local government assistance	\$ 208,480
State highways	
Construction	1,387,506
Design	162,218
Right of way	219,769
Utilities	43,431
Planning and research	58,150
Other	254,278
Total	<u>\$ 2,333,832</u>

Additionally, in prior fiscal years, only certain construction commitments were presented. Beginning in fiscal year 2017, all construction related commitments are being disclosed. As a result of expanding the ADOT’s commitments disclosure beyond the construction phase, outstanding commitments increased by approximately \$867.5 million compared to fiscal year 2016.

**F. ARIZONA STATE LOTTERY**

Winners are offered the option of cash or 30-year annuity for the PICK on-line game. The annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, S & P, Moody’s, Duff & Phelps, or Weiss. Purchases of annuities transfer liabilities for prizes to the insurance company. However, the Lottery may incur liabilities for prizes in the event of a default of an insurance company. Aggregate future payments to prize winners on existing annuities totaled \$51.5 million at June 30, 2017. Approximately \$47.5 million of the total aggregate future payments at June 30, 2017 relate to annuities purchased from five separate insurance companies, of which approximately \$22.3 million relates to a single insurance company.

**NOTE 14. TOBACCO SETTLEMENT**

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

The State recorded tobacco settlement revenue of \$101.5 million in the fund statements and the government-wide statements in fiscal year 2017. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable.

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These adjustments include a volume adjustment, which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2017.

**NOTE 15. SUBSEQUENT EVENTS**

In December 2017, the ASU issued \$52.9 million in System Revenue Bonds, Series 2017A (Series 2017A Bonds), \$140.9 million in System Revenue Refunding Bonds, Series 2017B (Series 2017B Bonds), and \$6.1 million in System Revenue Refunding Bonds, Series 2017C (Series 2017C Bonds). The Series 2017A Bonds include serial bonds with interest rates of 5.00% and maturity dates ranging from 2019 to 2038 and were issued for the following projects: (1) renovations to research laboratories, classrooms, buildings and other infrastructure on all of the ASU's campuses, (2) renovations of Armstrong Hall and the Ross-Blakley Library on the Tempe, Arizona campus, and (3) pay costs of issuance. The Series 2017B Bonds include both serial and term bonds with interest rates of 5.00% and maturity dates ranging from 2018 to 2043 and were issued to: (1) refund, in advance of maturity, the Series 2009A, Series 2010C, Series 2012A, and Series 2013A bonds, and (2) pay costs of issuance. The Series 2017C Bonds include serial bonds with interest rates ranging from 1.74% to 3.39% and maturity dates ranging from 2018 to 2036 and were issued to: (1) refund, in advance of maturity, the Series 2007B bonds, and (2) pay costs of issuance. Prior to their stated maturity dates pursuant to the debt documents, the Series 2017A Bonds are subject to optional redemption, the Series 2017B Bonds are subject to optional and mandatory redemption, and the Series 2017C Bonds are subject to mandatory redemption.

In February 2018, the U of A issued \$94.0 million in System Revenue Bonds, Series 2018A (Series 2018A Bonds), and \$16.8 million in System Revenue Bonds, Series 2018B (Series 2018B Bonds). The Series 2018A Bonds include serial and term bonds with interest rates ranging from 3.25% to 5.00% and maturity dates ranging from 2019 to 2043 and were issued for the following projects: (1) the Honors College Community Support and Auxiliary Services Project, (2) the Intercollegiate Athletics Project, and (3) pay costs of issuance. The Series 2018B Bonds include serial and term bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2019 to 2043 and were issued for the following: (1) the Building 90 Deferred Maintenance Project, and (2) pay costs of issuance. The Series 2018A and the Series 2018B Bonds are subject to optional and mandatory redemption prior to their stated maturity dates pursuant to the debt documents.

**NOTE 16. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES**

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

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**2. Net Assets**

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

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

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- *Permanently restricted net assets* include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity.

**3. Investments**

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

In addition, investments include Universities' endowment funds totaling \$339.0 million managed by the Foundations. These funds are primarily held in pooled endowment funds managed for the Universities under service contracts with the Foundations and invested in the Foundations' endowment pools.

**4. Income Taxes**

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

**5. Contributions**

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

**6. Net Assets Released from Restriction**

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

**7. Deferred Outflows of Resources**

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

**8. Endowments**

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

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

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

The U of A Foundation’s goal is to manage endowment assets such that the annual nominal return exceeds the annual “hurdle rate” (the sum of the payout and the endowment fee) so the endowment principal is able to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. The U of A Foundation expects its endowment funds to provide an annual average rate of return of 7.9% with a standard deviation of 15.3% over a 20 year period.

**9. Use of Estimates**

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

**B. DEPOSITS AND INVESTMENTS**

**1. Component Units**

**a. Deposits and Investment Policies**

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

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

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

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. The AFA’s WIFA does not have a formal policy regarding custodial credit risk for investments.

**c. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The AFA’s WIFA does not have a formal policy regarding interest rate risk. The following table presents the interest rate risk for the AFA’s WIFA utilizing the segmented time distribution method as of June 30, 2017 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Guaranteed investment contracts	\$ 54,458	\$ 38,477	\$ -	\$ -	\$ 15,981
Money market mutual funds	953	953	-	-	-
U.S. Treasury securities	43,913	33,874	-	1,064	8,975
Total	\$ 99,324	\$ 73,304	\$ -	\$ 1,064	\$ 24,956

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**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 AFA's WIFA does not have a formal policy regarding credit risk but their investments are in accordance with the master bond indenture. The following table presents the AFA's WIFA's investments which were rated by S & P and/or an equivalent national rating organization. The ratings are presented using S & P's rating scale as of June 30, 2017 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>Unrated</u>
Guaranteed investment contracts	\$ 54,458	\$ -	\$ 54,458
Money market mutual funds	953	953	-
Total	<u>\$ 55,411</u>	<u>\$ 953</u>	<u>\$ 54,458</u>

**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 AFA's WIFA's investment policy contains no limitations on the amount that can be invested in any one issuer. At June 30, 2017, investments in any one issuer, that were more than 5% of the AFA's WIFA's total investments are in Bayerische Landesbank (fair value of \$38.5 million, or 8.4%).

**f. Fair Value Measurement**

The AFA's WIFA's investments at June 30, 2017, categorized within the fair value hierarchy established by U.S. GAAP, were as follows (expressed in thousands):

<u>Investment by Fair Value Level</u>	<u>June 30, 2017</u>	<u>Fair Value Measurement Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
U.S. Treasury securities	\$ 43,913	\$ -	\$ 43,913	\$ -
Total	<u>\$ 43,913</u>	<u>\$ -</u>	<u>\$ 43,913</u>	<u>\$ -</u>

Investments categorized as Level 2 are valued using significant other observable inputs. In addition, the AFA's WIFA had \$953 thousand invested in money market funds as well as \$54.5 million in guaranteed investment contracts that were recorded at cost.

**2. Universities-Affiliated Component Units**

**a. Investment Summary**

The investments held by the ASUEP and the U of A Foundation at June 30, 2017, were as follows (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Money market funds and cash equivalents	\$ 49,965
Domestic/international equity securities and mutual funds	764,149
U.S. fixed income obligations and mutual funds	256,381
Absolute return limited partnerships and funds	289,064
Other investments	351,290
Total Investments	<u>\$ 1,710,849</u>

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**b. Investments Classified in Fair Value Hierarchy**

The investments held by the ASUEP and the U of A Foundation at June 30, 2017, categorized within the fair value hierarchy, were as follows (expressed in thousands):

	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Money Market Funds and Cash Equivalents	\$ 49,965	\$ 49,937	\$ -	\$ 28
Domestic/international equity securities and mutual funds	650,474	396,200	-	254,274
U.S. fixed income obligations and mutual funds	250,554	242,622	-	7,932
Absolute return limited partnerships and funds	289,064	52,153	-	236,911
Other	373,766	84,887	-	288,879
Total investments by fair value level	1,613,823	\$ 825,799	\$ -	\$ 788,024
<b>Investments Measured at the NAV</b>				
ASUEP Domestic/international equity securities and mutual funds	113,675			
ASUEP U.S. fixed income obligations and mutual funds	5,827			
ASUEP Other investments	8,264			
Total investments measured at the NAV	127,766			
Total investments measured at fair value	\$ 1,741,589			

Investments categorized as Level 1 of the fair value hierarchy are valued using quoted prices in active markets for identical assets or liabilities which provides the most reliable fair value measurement because it is directly observable to the market. Investments categorized as Level 3 of the fair value hierarchy are measured using management's best estimate of fair value, where the inputs included in the determination of fair value are not observable and require significant management judgment or estimation. The ASUEP also had liabilities at fair value totaling \$154,191, including \$7,432 in unrealized swap liability valued using level 2 valuation techniques, and \$146,759 in assets held for others valued using level 3 valuation techniques.

**c. Investments Measured at the NAV**

The investments held by the ASUEP at June 30, 2017, valued using the NAV per share were as follows (expressed in thousands):

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
<b>Investments Measured at the NAV</b>				
ASUEP Domestic/international equity securities and mutual funds	\$ 113,675	-	N/A	N/A
ASUEP U.S. fixed income obligations and mutual funds	5,827	-	N/A	N/A
ASUEP Other investments	8,264	-	N/A	N/A
Total	\$ 127,766			

**C. PROGRAM LOANS**

The AFA's 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 2017 are as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Clean Water Fund	\$ 534,867	\$ 5,219	\$ (72,097)	\$ 467,989
Drinking Water Fund	380,797	12,677	(51,057)	342,417
Total	\$ 915,664	\$ 17,896	\$ (123,154)	\$ 810,406

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

Some program loans require a monthly or quarterly payment into a debt service reserve to assure payments of the loans. The debt service reserve is a liability of the AFA's WIFA to the borrowers and interest on the reserve accrues to the borrowers. As of June 30, 2017, the debt service reserve was \$69 thousand and \$2.2 million for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

**D. PLEDGES RECEIVABLE**

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

Pledges receivable, as of June 30, 2017, include the following (expressed in thousands):

	<b>ASU Enterprise Partners</b>
Gross pledges receivable	\$ 196,284
Present value discount	(15,165)
Allowance for uncollectible pledges	(43,522)
Net Pledges Receivable	<u>\$ 137,597</u>

**E. DIRECT FINANCING LEASE AGREEMENTS**

**1. ASUEP**

The ASUEP leases a portion of the Fulton Center building (the ASUEP's headquarters) to the ASU under a direct financing lease. At the end of lease, the ASUEP and affiliates will gift their portion of the building to the ASU and the ASU will receive title to the building. The ASUEP's net investment in this direct financing lease at June 30, 2017 is \$21.9 million.

**2. ACFFC**

Pursuant to a Sublease Agreement, dated April 7, 2004 and amended on April 1, 2009 (the Sublease), Nanotechnology Research, LLC, a wholly-owned subsidiary of the ACFFC, leases its interest in the Research Park to the ASU. The ASU will make lease payments at times in amounts sufficient to pay all principal and interest on the Series 2009A and 2009B Bonds. The Sublease has successive annual renewals without action from either party through the period ending March 31, 2034. The Sublease is subject to early termination by Nanotechnology or the ASU upon the payment in full of the Series 2009A and 2009B Bonds. Upon termination or expiration of the Sublease, the ACFFC's interest in the premises, including all buildings and improvements on the leased premises, transfers to the ASU without further consideration. The ACFFC's net investment in the Nanotechnology facility direct financing lease is \$28.1 million at June 30, 2017.

Pursuant to the ASU Lease Agreement, dated July 1, 2005, McAllister Academic Village, LLC, a wholly-owned subsidiary of the ACFFC, leases its interest in the non-residential portion of Hassayampa Academic Village (Hassayampa, HAV) to the ASU which consists of the academic, tutorial, retail, and food service facilities. The lease was amended effective July 7, 2016 to change the annual renewal period through June 30, 2039 to correspond with the maturity of the Hassayampa 2016 Bonds. Any right, title, or interest of Hassayampa in and to the academic portions of the Hassayampa project will pass to the ASU without further cost upon payment in full of the Hassayampa 2008 Bonds. Lease payments are based on the fixed interest rates determined by the Hassayampa 2008 and 2016 Bonds maturity schedules. The ACFFC's net investment in the McAllister (HAV) direct financing lease is \$10.5 million at June 30, 2017.

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**F. CAPITAL ASSETS**

Capital assets for the ACFFC for the fiscal year ended June 30, 2017 include the following (expressed in thousands):

	<u>ACFFC</u>
Buildings and improvements	\$ 174,046
Furniture, fixtures, and equipment	79,027
Total cost or donated value	<u>253,073</u>
Less: Accumulated Depreciation	<u>(120,739)</u>
Total Property and Equipment, Net	<u>\$ 132,334</u>

**G. LONG-TERM OBLIGATIONS**

**1. Component Units**

**a. Summary of Revenue Bonds**

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

On December 4, 2014, AFA's WIFA issued \$342.6 million of Water Quality Revenue Refunding Bond series 2014A for the purpose of advance refunding a portion of the 2006 Water Quality Revenue Bonds, 2008 Water Quality Revenue Bonds, 2009 Water Quality Revenue Bonds, 2010 Water Quality Revenue Bonds, and the 2012 Water Quality Refunding Bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest in the refunded bonds issues had been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The amount outstanding of the defeased bonds, as of June 30, 2017, was \$325.3 million.

In June 2017, AFA's WIFA defeased \$12.4 million of Water Quality Revenue Bonds, series 2009A using their own resources. Sufficient assets to pay principal of \$12.4 million and interest of \$503 thousand had been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The interest paid on the defeasance is included in expenses in the accompanying financial statements. The amount of the defeased bonds, as of June 30, 2017, was \$12.4 million.

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

The following schedule summarizes AFA's WIFA revenue bonds outstanding at June 30, 2017 (expressed in thousands):

	<u>Dates Issued</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>Outstanding Balance at June 30, 2017</u>
Revenue Bonds Outstanding	2006-2015	2018-2031	0.20-5.00%	\$ 606,270

Principal and interest debt service payments on AFA's WIFA revenue bonds outstanding at June 30, 2017 are as follows (expressed in thousands):

<u>Fiscal Year</u>	<u>Annual Debt Service</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 41,025	\$ 27,447	\$ 68,472
2019	40,760	25,810	66,570
2020	49,725	23,774	73,499
2021	51,900	21,327	73,227
2022	53,105	18,769	71,874
2023-2027	247,810	55,346	303,156
2028-2031	121,945	8,466	130,411
Total	<u>\$ 606,270</u>	<u>\$ 180,939</u>	<u>\$ 787,209</u>



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

The following is a summary of changes in long-term obligations for AFA's WIFA (expressed in thousands):

	<b>Balance July 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>	<b>Due Thereafter</b>
Long-term Debt:						
Revenue bonds	\$ 656,060	\$ -	\$ (49,790)	\$ 606,270	\$ 41,025	\$ 565,245
Revenue bond premium	90,485	-	(3,277)	87,208	-	87,208
<b>Total Long-term Debt</b>	<b>746,545</b>	<b>-</b>	<b>(53,067)</b>	<b>693,478</b>	<b>41,025</b>	<b>652,453</b>
Other Long-term Liabilities:						
Compensated absences	88	78	(71)	95	95	-
<b>Total Other Long-term Liabilities</b>	<b>88</b>	<b>78</b>	<b>(71)</b>	<b>95</b>	<b>95</b>	<b>-</b>
<b>Total Long-term Obligations</b>	<b>\$ 746,633</b>	<b>\$ 78</b>	<b>\$ (53,138)</b>	<b>\$ 693,573</b>	<b>\$ 41,120</b>	<b>\$ 652,453</b>

**2. Universities-Affiliated Component Units**

A summary of bonds payable as of June 30, 2017 include the following (expressed in thousands):

	<b>Final Maturity</b>	<b>Amount</b>
ASU Enterprise Partners:		
Series 2014A Tax-Exempt Lease Revenue Bonds	2035	\$ 31,390
Series 2014B Taxable Lease Revenue Bonds	2019	3,610
Series 2014A Revenue Refunding Bonds	2034	38,600
Series 2004A Variable Rate Revenue Bonds	2034	22,420
Series 2004B Variable Rate Revenue Bonds	2022	5,200
Unamortized Bond Discount		(1,365)
ACFFC:		
Series 2011 Tax-Exempt Revenue Refunding Bonds	2018	5,830
Series 2009 Revenue Bonds	2024	26,785
Series 2009A Lease Revenue Refunding Bonds	2034	22,955
Series 2009B Lease Revenue Refunding Bonds	2022	5,455
Series 2008 Revenue Bonds	2028	12,030
Series 2008 Revenue Refunding Bonds	2019	6,380
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	32,410
Series 2016 Tax-Exempt Revenue Refunding Bonds	2039	118,050
Unamortized Loan Costs		(2,904)
Deferred Cost of Refunding		(16,374)
Unamortized Bond Premium		25,985

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

<b>Fiscal Year</b>	<b>ASU Enterprise Partners</b>	<b>ACFFC</b>
2018	\$ 3,680	\$ 10,985
2019	3,845	11,715
2020	4,035	9,345
2021	4,215	9,535
2022	4,395	10,190
Thereafter	79,685	184,832
<b>Total</b>	<b>\$ 99,855</b>	<b>\$ 236,602</b>

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**H. TAX ABATEMENTS**

The Rio Nuevo receives tax increment financing from state sales tax revenue that can be used to enter into tax abatement agreements with local developers for the purpose of attracting or retaining businesses and new development within the Rio Nuevo District. As of June 30, 2017, the Rio Nuevo has approved the following tax abatement agreements over \$5.0 million; however, no state sales tax revenue was provided to the developers relating to these agreements as of June 30, 2017.

In May 2014, the Rio Nuevo board of directors (Board) allocated \$4.3 million to the purchase of the garage component of a proposed new downtown hotel (AC Marriott). As of June 30, 2016, the Rio Nuevo had expended \$10 thousand on the project. In June 2017, the purchase contract was terminated, and the Rio Nuevo and the developer entered into a modified agreement. Under the modified agreement, the Rio Nuevo will have no ownership interest in the garage; instead, the developer will receive the gross state sales tax proceeds received by the Rio Nuevo on the hotel property and certain retail facilities that the developer will renovate, improve and refurbish. The developer shall receive 100% of the gross state sales tax revenue through July 1, 2025, and 50% thereafter, until the maximum of \$7.8 million is reached. As of June 30, 2017, construction on the hotel and improvements to the retail facilities were still in progress.

In May 2017, the Board also approved re-structuring the purchase/lease option for three historic buildings and two additional properties with tax abatement incentives under which the developer will receive 100% of the gross state sales tax proceeds received by the Rio Nuevo through July 1, 2025, and 50% thereafter, until the maximum abatement is reached. The combined proposed cap on the abatements for these properties is \$10.6 million.

**I. CONDUIT DEBT**

The purpose of the AFA's AIDA is to provide a cost-effective mechanism through which private borrowers can seek financing from private sources through either a private placement or public offering of taxable or tax-exempt bonds issued by the AFA's AIDA. The primary use of funds has been for hospital facilities and charter school projects.

Although bonds are issued in the name of the AFA's AIDA, loans funded through the bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. The AFA's AIDA 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. At June 30, 2017, the outstanding face value of all bonds of the AFA's AIDA was \$4.5 billion.

The purpose of the AFA's GADA is to provide cost-effective capital for local communities, certain special districts, and tribal governments for public infrastructure projects. The bond structure allows it to lower borrowing costs for Arizona's communities by issuing and selling bonds tax-exempt and by sharing financing costs among several borrowers. Principal and interest are payable semi-annually. Loans are secured by the Pledged Collateral Reserve Fund, a requirement that is calculated and deposited by the AFA's GADA from its 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 bonds.

In previous years, the State appropriated a total of \$20.0 million to the AFA's GADA for the express purpose of securing bonds. Although issued in the name of the AFA's GADA, loans funded through the bonds are solely the obligation of the underlying borrowers and are documented by loan repayment agreements. Pursuant to A.R.S. § 41-2259, the bonds do not constitute nor create a general, special, or other obligation or other indebtedness of the State or any governmental unit within the meaning of any constitutional or statutory debt limitation. The bonds do not constitute a legal debt of the State and are not enforceable against the State. The only exposure to the State is related to the *restricted* net position of \$12.0 million in the Pledged Collateral Reserve Fund. At June 30, 2017, the total outstanding face value of all bonds issued by the AFA's GADA was \$164.5 million.

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**J. ACCOUNTING CHANGES**

Net Assets has been restated for the Universities-Affiliated Component Units as follows (expressed in thousands):

	<b>Universities – Affiliated Component Units</b>
Net Assets, as previously reported	\$ 1,560,737
Change in reporting entity	(735,103)
Net Assets, as restated	<u>\$ 825,634</u>

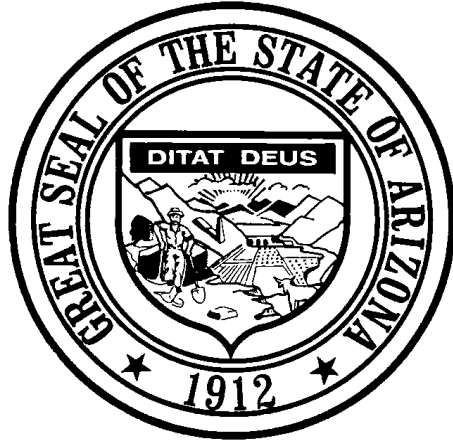
**Change in Reporting Entity**

As described in Note 9, the ASU evaluated the affiliation between the Thunderbird and the ASU and determined that the Thunderbird should be blended for fiscal year 2017. This resulted in a \$30.3 million decrease to beginning net assets.

In September 2015, the ASU Foundation board of directors approved a corporate entity restructure, where a new entity, the ASUEP, was created to be a parent and holding company of the ASU Foundation and four other affiliated organizations. The ASUEP began operations on July 1, 2016, and is the sole member of each of these five affiliates and their subsidiaries. The ASUEP is an Arizona nonprofit corporation and a 501(c)(3) tax-exempt organization. This corporate restructure resulted in a \$746.4 million decrease to beginning net assets. However, the net impact of the restructuring did not result in any economic gain or loss and did not impact the ending net assets as all assets were transferred. Effective July 1, 2016, the ASU Foundation assigned its interest in various assets and liabilities to the ASUEP or to an affiliate of the ASUEP.

The Downtown Phoenix Student Housing, LLC, previously reported as a discrete component unit of the State affiliated with the Universities, was removed from the reporting entity. It was determined that the nature and significance of the financial relationship are such that it does not meet the criteria for inclusion. Elimination of the Downtown Phoenix Student Housing, LLC, resulted in a \$46.7 million increase to beginning net assets.

In December 2011, the Sun Angel Endowment entered into a contingent plan of merger with the Sun Angel Foundation and the ABOR for and on behalf of the ASU, in which, upon satisfaction of certain conditions, the Sun Angel Endowment would merge into the Sun Angel Foundation and the Sun Angel Foundation would continue as the surviving corporation. During the fiscal year ended June 30, 2017, all transactions were completed to liquidate and transfer assets from the Sun Angel Endowment to the Sun Angel Foundation and the Sun Angel Endowment was removed from the reporting entity. The Sun Angel Endowment merger with the Sun Angel Foundation resulted in a \$5.1 million decrease to beginning net assets. However, it did not result in an economic gain or loss and did not impact ending net assets as all assets were transferred.



REQUIRED  
SUPPLEMENTARY  
INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

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 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>			
500 BED MAXIMUM SECURITY	\$ 1,368,029	\$ 1,368,029	\$ -
ADMIN ADJUSTMENT AFIS COLLECTIONS	-	307,539	307,539
ADMIN ADJUSTMENT AFIS REPLACEMENT ERP	-	1,328,519	1,328,519
ADMIN ADJUSTMENT AUTOMATION AND INFORMATION TECH PROJECTS	-	1,095,497	1,095,497
ADMIN ADJUSTMENT E LICENSING DEQ	-	1,930,000	1,930,000
ADMIN ADJUSTMENT GOVERNMENT TRANSFORMATION OFFICE	-	43,507	43,507
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	1,408,732	1,408,732
ADMIN ADJUSTMENT UTILITIES	-	625,264	625,264
ADULT INFORMATION MANAGEMENT SYSTEM	8,000,000	11,390,888	7,390,888
AFIS COLLECTIONS	9,406,300	9,406,300	9,295,409
AFIS REPLACEMENT ERP	3,165,784	6,851,523	3,025,378
AUTOMATION AND INFORMATION TECH PROJECTS	12,798,400	15,704,712	7,458,155
BUILDING RENEWAL	384,976	384,976	245,908
BUILDING RENEWAL COSF	25,229,542	25,229,542	14,746,041
BUILDING RENEWAL COST	4,073,452	4,073,452	4,026,110
BUILDING RENEWAL GF	15,987,588	15,987,588	9,355,494
CAPITOL MALL SECURITY SYSTEM	13,648	13,648	13,648
CHILDRENS INFORMATION LIBRARY	4,581,600	9,268,600	3,687,000
CHILDRENS INFORMATION LIBRARY AND DATA SOURCE SYSTEM AT DCS	-	6,103,000	-
COP DEBT SERVICE 2009 3RD SS CH 6 SEC 32	60,105,600	60,105,600	60,105,600
COP DEBT SERVICE 2009 6TH SS CH 4 SEC 2A	24,011,800	24,011,800	24,011,800
COUNTY ATTORNEY IMMIGRATION ENFORCEMENT	332,755	332,755	-
COUNTY SERVICES DISTRIBUTION	5,500,500	5,500,500	5,500,500
E LICENSING DEQ	-	3,071,945	1,070,000
ESSENTIAL COUNTY SERVICES	500,000	500,000	500,000
GOVERNMENT TRANSFORMATION OFFICE	1,000,000	1,000,000	956,708
MAINTENANCE OF ESSENTIAL COUNTY SERVICES	8,000,000	8,000,000	8,000,000
OPERATING LUMP SUM APPROPRIATION	24,202,500	23,619,055	21,348,816
RELOCATION	96,719	96,719	78,765
REPLACE E-PROCUREMENT SYSTEM	9,000,000	9,000,000	204,840
REPLACE TAX ACCOUNTING SYSTEM FEASIBILITY STUDY	1,000,000	1,000,000	-
SOUTHWEST DEFENSE CONTRACTS	25,000	25,000	25,000
STATE FED SECURITY IT STANDARDS DES	1,294,700	1,743,322	-
STUDENT LONGITUDINAL DATA SYSTEM	7,300,000	7,300,000	7,300,000
SWEEPS	5,731,100	5,731,100	5,731,100
THIRD PARTY IT CONSOLIDATION ASSESSMENT	800,000	800,000	750,000
UTILITIES	8,275,600	8,275,600	6,141,048
WHITE MOUNTAIN APACHE TRIBES WATER RIGHT	2,000,000	2,000,000	-
<b>ADMINISTRATIVE HEARINGS, OFFICE OF</b>			
OPERATING LUMP SUM APPROPRIATION	861,700	860,500	860,500
<b>AGRICULTURE, ARIZONA DEPARTMENT OF</b>			
ADMIN ADJUSTMENT ANIMAL DAMAGE CONTROL	-	18,101	18,101
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	100,963	100,963
AG CONSULTING AND TRAINING PARI-MUTUEL	128,500	128,500	128,429
AGRICULTURAL EMPLOYMENT RELATIONS BOARD	23,300	23,300	23,300
ANIMAL DAMAGE CONTROL	65,000	65,000	50,350
OFFSITE NUCLEAR EMERGENCY RESPONSE PLANS	-	198,434	198,434
OPERATING LUMP SUM APPROPRIATION	8,781,200	8,724,300	8,621,694
RED IMPORTED FIRE ANT	23,200	23,200	23,200
<b>AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM</b>			
ACA ADULT EXPANSION	456,023,100	430,324,100	425,979,767
ADMIN ADJUSTMENT ACA ADULT EXPANSION	-	21,162,234	21,162,234
ADMIN ADJUSTMENT ALTCS SERVICES	-	20,062,555	20,062,555
ADMIN ADJUSTMENT CHILDRENS REHABILITATIVE SERVICES	-	11,971,686	11,971,686
ADMIN ADJUSTMENT CHIP - SERVICES	-	162,157	162,157
ADMIN ADJUSTMENT DES ELIGIBILITY	-	18,521,934	18,521,934
ADMIN ADJUSTMENT DISPROPORTIONATE SHARE PAYMENTS	-	5,051,100	5,051,100
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	4,586,417	4,586,417
ADMIN ADJUSTMENT PROP 204 AHCCCS ADMINISTRATION	-	2,121,007	2,121,007
ADMIN ADJUSTMENT PROP 204 DES ELIGIBILITY	-	5,823,821	5,823,821
ADMIN ADJUSTMENT PROPOSITION 204 SERVICES	-	73,509,921	73,509,921
ADMIN ADJUSTMENT RURAL HOSPITAL REIMBURSEMENT	-	661,390	661,390
ADMIN ADJUSTMENT TRADITIONAL MEDICAID SERVICES	-	172,693,512	172,693,512
ALTCS SERVICES	1,400,165,200	1,362,188,100	1,307,516,937
BHS PROPOSITION 204 ADMIN	5,832,000	-	-

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, 2017  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CHILDRENS REHABILITATIVE SERVICES	275,375,700	280,814,200	265,087,448
CHIP - SERVICES	1,955,000	61,180,800	23,747,747
CRISIS SERVICES	14,141,100	14,141,100	14,082,429
DES ELIGIBILITY	54,874,500	92,874,500	73,700,922
DISPROPORTIONATE SHARE PAYMENTS	5,087,100	5,087,100	4,202,300
DSH - VOLUNTARY	19,896,000	43,896,000	23,553,767
GRADUATE MEDICAL EDUCATION	162,992,600	288,712,950	224,475,695
MEDICAID BEHAVIORAL HEALTH ADULT EXPANSION SERVICES	77,702,300	80,960,800	78,821,613
MEDICAID BEHAVIORAL HEALTH CMDP	208,027,400	177,266,400	172,511,172
MEDICAID BEHAVIORAL HEALTH PROPOSITION 204 SERVICES	612,844,800	723,910,100	720,697,332
MEDICAID BEHAVIORAL HEALTH TRADITIONAL SERVICES	924,662,300	1,121,705,400	1,115,036,837
NON MEDICAID SERIOUSLY MENTALLY ILL SERVICES	78,846,900	78,846,900	78,680,865
OPERATING LUMP SUM APPROPRIATION	91,439,300	102,048,900	90,679,603
PROP 204 AHCCCS ADMINISTRATION	6,832,800	18,666,600	15,098,806
PROP 204 DES ELIGIBILITY	38,358,700	44,358,700	39,238,752
PROPOSITION 204 SERVICES	2,531,620,500	2,447,461,700	2,421,639,543
RURAL HOSPITAL REIMBURSEMENT	22,650,000	22,650,000	22,650,000
SAFETY NET CARE POOL	137,000,000	137,000,000	96,756,841
SUPPORTED HOUSING	5,324,800	5,324,800	5,237,844
SWEEPS	-	30,000,000	30,000,000
TRADITIONAL MEDICAID SERVICES	3,898,755,100	3,720,262,000	3,523,847,213
<b>ARIZONA STATE UNIVERSITY</b>			
BIOMEDICAL INFORMATICS	2,791,900	2,800,400	2,800,400
DOWNTOWN PHOENIX CAMPUS	13,492,100	14,337,000	14,337,000
OPERATING LUMP SUM APPROPRIATION - MAIN	214,019,600	216,241,200	216,241,200
OPERATING LUMP SUM APPROPRIATION - EAST	21,574,400	21,606,100	21,606,100
OPERATING LUMP SUM APPROPRIATION - WEST	29,176,300	29,222,600	29,222,600
RESEARCH INFRASTRUCTURE LEASE-PURCHASE PAYMENT	-	10,273,300	10,273,285
RESEARCH INFRASTRUCTURE LEASE PURCHASE PAYMENT - POLYTECHNIC	-	917,000	917,000
SCHOOL OF CIVIC AND ECONOMIC THOUGHT AND LEADERSHIP	3,000,000	3,000,000	3,000,000
<b>ATTORNEY GENERAL - DEPARTMENT OF LAW</b>			
ADMIN ADJUSTMENT CAPITAL POSTCONVICTION PROSECUTION	-	116	116
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	131,998	131,998
ADMIN ADJUSTMENT SOUTHERN ARIZONA DRUG ENFORCEMENT	-	251	251
ADMIN ADJUSTMENT STATE GRAND JURY	-	1,415	1,415
ADMIN ADJUSTMENT TOBACCO ENFORCEMENT	-	12	12
CAPITAL POSTCONVICTION PROSECUTION	799,400	795,700	677,013
INTERNET CRIMES AGAINST CHILDREN ENFORCEMENT	3,050,000	3,050,000	728,702
LEGAL ARIZONA WORKERS ACT	100,000	100,000	-
MILITARY INSTALLATION-PLANNING	4,725	89,725	83,115
OPERATING LUMP SUM APPROPRIATION	37,646,200	37,485,100	36,776,013
SOUTHERN ARIZONA DRUG ENFORCEMENT	1,200,000	1,193,000	1,192,881
STATE GRAND JURY	180,600	180,100	173,955
TOBACCO ENFORCEMENT	84,900	84,400	15,879
<b>AUDITOR GENERAL</b>			
INDEPENDENT CONSULTANT - CHILD WELFARE	74,449	74,449	-
OPERATING LUMP SUM APPROPRIATION	23,494,907	23,428,107	17,936,113
<b>CHARTER SCHOOLS, STATE BOARD FOR</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	13,044	13,044
OPERATING LUMP SUM APPROPRIATION	1,194,100	1,185,200	997,371
<b>CHILD SAFETY, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT DCS ADOPTION SERVICES	-	18,351,857	18,351,857
ADMIN ADJUSTMENT DCS ATTORNEY GENERAL LEGAL SERVICES	-	691,446	691,446
ADMIN ADJUSTMENT DCS CHILD CARE SUBSIDY	-	5,223,700	5,223,700
ADMIN ADJUSTMENT DCS FOSTER CARE PLACEMENT	-	5,947,698	5,947,698
ADMIN ADJUSTMENT DCS GENERAL COUNSEL	-	24,123	24,123
ADMIN ADJUSTMENT DCS GRANDPARENT STIPENDS	-	242,633	242,633
ADMIN ADJUSTMENT DCS INDEPENDENT LIVING MAINTENANCE	-	98,431	98,431
ADMIN ADJUSTMENT DCS IN-HOME PREVENTIVE SUPPORT SERVICES	-	7,886,865	7,886,865
ADMIN ADJUSTMENT DCS INSPECTIONS BUREAU	-	4,137	4,137
ADMIN ADJUSTMENT DCS INTERNET CRIMES AGAINST CHILDREN	-	205,173	205,173
ADMIN ADJUSTMENT DCS OFFICE OF CHILD WELFARE INVESTIGATIONS	-	21,071	21,071
ADMIN ADJUSTMENT DCS OPERATING LUMP SUM	-	5,803,870	5,803,870
ADMIN ADJUSTMENT DCS OUT-OF-HOME SUPPORT SERVICES	-	18,100,668	18,100,668
ADMIN ADJUSTMENT DCS OVERTIME	-	765,422	765,422
ADMIN ADJUSTMENT DCS PERMANENT GUARDIAN SUBSIDY	-	1,135,809	1,135,809

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

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STATE OF ARIZONA  
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 GENERAL FUND  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT DCS RECORDS RETENTION STAFF	-	53,791	53,791
ADMIN ADJUSTMENT DCS RETENTION PAY	-	110,262	110,262
ADMIN ADJUSTMENT DCS TRAINING RESOURCES	-	3,665,603	3,665,603
ADMIN ADJUSTMENT EMERGENCY AND RESIDENTIAL PLACEMENT	-	13,622,658	13,622,658
BACKLOG PRIVATIZATION	5,400,000	5,400,000	1,000,428
DCS ADOPTION SERVICES	225,698,100	229,394,100	208,941,558
DCS ATTORNEY GENERAL LEGAL SERVICES	25,588,700	25,416,800	25,321,439
DCS CASEWORKERS	100,992,100	100,410,600	88,741,390
DCS CHILD CARE SUBSIDY	45,159,400	48,920,400	39,624,866
DCS FOSTER CARE PLACEMENT	65,595,500	61,795,500	51,002,613
DCS GENERAL COUNSEL	156,100	155,500	130,172
DCS GRANDPARENT STIPENDS	1,000,000	541,000	523,405
DCS INDEPENDENT LIVING MAINTENANCE	4,660,000	3,955,000	3,917,727
DCS IN-HOME MITIGATION	27,528,800	28,418,800	20,023,990
DCS INSPECTIONS BUREAU	2,486,500	2,470,100	2,172,454
DCS NEW CASE AIDES	3,077,700	3,060,600	509,422
DCS OFFICE OF CHILD WELFARE INVESTIGATIONS	10,706,700	10,611,100	7,814,273
DCS OPERATING LUMP SUM	116,103,100	115,797,300	99,840,748
DCS OUT-OF-HOME SUPPORT SERVICES	198,272,500	193,621,500	131,878,921
DCS OVERTIME	8,400,000	8,370,000	5,307,321
DCS PERMANENT GUARDIAN SUBSIDY	12,516,900	11,684,900	10,699,402
DCS PREVENTIVE SERVICES	15,148,300	15,148,300	13,394,142
DCS RECORDS RETENTION STAFF	595,600	592,900	540,278
DCS RETENTION PAY	1,707,000	1,707,000	895,275
DCS TRAINING RESOURCES	5,150,000	5,150,000	4,340,245
EMERGENCY AND RESIDENTIAL PLACEMENT	98,900,100	101,000,100	92,758,227
<b>COMMISSION OF AFRICAN-AMERICAN AFFAIRS</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM	-	2,935	2,935
OPERATING LUMP SUM	125,000	125,000	119,922
<b>CORPORATION COMMISSION</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	767	767
DIVISION DATABASE REPLACEMENT	2,000,000	2,000,000	250,000
OPERATING LUMP SUM APPROPRIATION	664,300	661,500	656,566
RAILROAD WARNING SYSTEMS	47,510	47,510	-
<b>CORRECTIONS, STATE DEPARTMENT OF</b>			
ADMIN ADJUSTMENT INMATE HEALTH CARE CONTRACTED SERVICES	-	8,262,364	8,262,364
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	6,235,093	6,235,093
ADMIN ADJUSTMENT PRIVATE PRISON PER DIEM	-	413,065	413,065
ASPC YUMA CHEYENNE REPAIRS	71,056	71,056	15,723
BUILDING RENEWAL FUND EXPENDITURES	361,019	361,019	4,783
CAPITAL OUTLAY APPROPRIATION	10,527,476	10,527,476	5,527,850
INMATE HEALTH CARE CONTRACTED SERVICES	135,637,100	131,137,100	128,832,125
OPERATING LUMP SUM APPROPRIATION	776,276,900	781,494,200	771,758,901
PRIVATE PRISON PER DIEM	143,120,900	137,120,900	131,091,409
RELIEF	-	6,946	6,946
SWEEPS	1,500	1,500	1,500
<b>COURT OF APPEALS DIVISION I</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION - DIV I	-	17,418	17,418
OPERATING LUMP SUM APPROPRIATION - DIV I	10,011,100	9,948,900	9,876,442
<b>COURT OF APPEALS DIVISION II</b>			
OPERATING LUMP SUM-DIVISION II	4,336,300	4,331,500	4,328,776
<b>DEAF AND BLIND, ARIZONA SCHOOLS FOR THE</b>			
ADMIN ADJUSTMENT ADMIN-STATEWIDE	-	3,573	3,573
ADMIN ADJUSTMENT PHOENIX DAY SCHOOL FOR THE DEAF	-	367,697	367,697
ADMIN ADJUSTMENT PRESCHOOL-OUTREACH PROGRAMS	-	54,474	54,474
ADMIN ADJUSTMENT REGIONAL COOPERATIVES	-	166	166
ADMIN ADJUSTMENT SCHOOL BUS REPLACEMENT	-	13	13
ADMIN ADJUSTMENT TUCSON CAMPUS	-	526,312	526,312
ADMIN-STATEWIDE	4,152,100	4,234,545	4,195,805
PHOENIX DAY SCHOOL FOR THE DEAF	3,806,700	4,066,860	3,460,255
PRESCHOOL-OUTREACH PROGRAMS	2,172,100	2,149,367	2,116,947
REGIONAL COOPERATIVES	821,900	63,298	61,037
SCHOOL BUS REPLACEMENT	738,000	738,000	507,280
TUCSON CAMPUS	9,905,600	10,126,030	9,826,849
<b>ECONOMIC OPPORTUNITY, OFFICE OF</b>			
OPERATING LUMP SUM APPROPRIATION	-	525,545	508,668

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STATE OF ARIZONA  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ECONOMIC SECURITY, DEPARTMENT OF</b>			
ACHIEVING A BETTER LIFE EXPERIENCE ACT PROGRAM	-	240,000	-
ADMIN ADJUSTMENT ADULT SERVICES	-	1,026,133	1,026,133
ADMIN ADJUSTMENT ATTORNEY GENERAL LEGAL SERVICES	-	272,038	272,038
ADMIN ADJUSTMENT AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	-	1,078,643	1,078,643
ADMIN ADJUSTMENT CASE MANAGEMENT-STATE ONLY	-	126,794	126,794
ADMIN ADJUSTMENT CASE MANAGEMENT-TITLE XIX	-	107,468	107,468
ADMIN ADJUSTMENT CHILD CARE SUBSIDY	-	8,570,770	8,570,770
ADMIN ADJUSTMENT COMMUNITY AND EMERGENCY SERVICES	-	292,991	292,991
ADMIN ADJUSTMENT COORDINATED HOMELESS PROGRAM	-	186,320	186,320
ADMIN ADJUSTMENT COORDINATED HUNGER	-	318,762	318,762
ADMIN ADJUSTMENT COUNTY PARTICIPATION	-	941,451	941,451
ADMIN ADJUSTMENT DCS SPECIAL SUPPLEMENTAL APPROPRIATION	-	21,000,000	21,000,000
ADMIN ADJUSTMENT DDD OPERATING LUMP SUM	-	8,218,962	8,218,962
ADMIN ADJUSTMENT DES OPERATING LUMP SUM	-	8,784,947	8,784,947
ADMIN ADJUSTMENT DOMESTIC VIOLENCE PREVENTION	-	623,812	623,812
ADMIN ADJUSTMENT HOME AND COMMUNITY BASED SERVICES - STATE ONLY	-	3,578,955	3,578,955
ADMIN ADJUSTMENT HOME AND COMMUNITY BASED SERVICES - TITLE XIX	-	58,985,431	58,985,431
ADMIN ADJUSTMENT INSTITUTIONAL SERVICES-TITLE XIX	-	2,686,711	2,686,711
ADMIN ADJUSTMENT JOBS	-	2,388,492	2,388,492
ADMIN ADJUSTMENT MEDICAL SERVICES-TITLE XIX	-	3,162,023	3,162,023
ADMIN ADJUSTMENT REHABILITATION SERVICES	-	417,595	417,595
ADMIN ADJUSTMENT STATE FUNDED LONG-TERM CARE SERVICES	-	2,451,806	2,451,806
ADMIN ADJUSTMENT SWEEPS	-	24,052,425	24,052,425
ADMIN ADJUSTMENT WORKFORCE INVESTMENT ACT SERVICES	-	11,780,926	11,780,926
ADULT SERVICES	7,924,100	7,924,100	5,961,340
ATTORNEY GENERAL LEGAL SERVICES	10,969,700	10,898,800	9,367,680
AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	20,701,600	23,589,500	20,143,046
CASE MANAGEMENT-STATE ONLY	3,912,700	3,893,700	3,699,891
CASE MANAGEMENT-TITLE XIX	72,751,700	78,885,900	66,567,493
CHILD CARE SUBSIDY	98,396,600	98,396,600	79,166,157
COMMUNITY AND EMERGENCY SERVICES	3,724,000	3,724,000	3,080,638
COORDINATED HOMELESS PROGRAM	2,522,600	2,522,600	2,425,779
COORDINATED HUNGER	1,754,600	1,754,600	1,592,919
COUNTY PARTICIPATION	8,740,200	8,740,200	4,177,347
DDD OPERATING LUMP SUM	64,342,800	74,792,900	56,980,570
DES OPERATING LUMP SUM	155,118,800	154,693,300	124,286,824
DOMESTIC VIOLENCE PREVENTION	10,003,700	10,003,700	9,452,417
HOME AND COMMUNITY BASED SERVICES - STATE ONLY	16,793,400	17,220,400	15,527,866
HOME AND COMMUNITY BASED SERVICES - TITLE XIX	1,300,998,400	1,304,489,900	1,162,220,467
INDEPENDENT LIVING REHABILITATION SERVICES	166,000	166,000	83,716
INSTITUTIONAL SERVICES-TITLE XIX	29,600,300	32,571,800	29,518,286
JOBS	11,894,700	11,894,700	8,651,786
LOAN FOR REIMBURSEMENT GRANTS	-	25,000,000	-
MEDICAL CLAWBACK	3,370,600	3,370,600	3,370,600
MEDICAL SERVICES-TITLE XIX	216,503,300	222,966,400	219,581,796
REHABILITATION SERVICES	6,594,400	6,594,400	4,988,449
STATE FUNDED LONG-TERM CARE SERVICES	26,554,000	26,559,600	24,316,237
SWEEPS	157,400	157,400	157,400
TANF CASH BENEFITS	27,736,400	27,736,400	26,814,249
TRIBAL PASS-THRU FUNDING	4,680,300	4,680,300	3,676,230
WORKFORCE INVESTMENT ACT SERVICES	51,654,600	51,654,600	42,853,915
<b>EDUCATION, BOARD OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM	-	82,879	82,879
OPERATING LUMP SUM	1,325,200	1,094,000	842,226
<b>EDUCATION, DEPARTMENT OF</b>			
ACHIEVEMENT TESTING	9,422,400	9,420,800	9,420,800
ADDITIONAL FORMULA COSTS	-	17,081,200	17,081,200
ADDITIONAL FUNDING	-	50,000,000	50,000,000
ADDITIONAL STATE AID - 1 PERCENT CAP	7,380,300	7,380,300	7,380,300
ADDITIONAL STATE AID TO SCHOOLS	391,456,100	391,456,100	389,850,403
ADMIN ADJUSTMENT OTHER STATE AID TO DISTRICTS	-	212,672	212,672
ADMIN ADJUSTMENT SPECIAL EDUCATION FUND	-	15,400	15,400
ADMIN ADJUSTMENT TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND	-	108,737	108,737
ADULT EDUCATION	4,500,000	4,498,200	4,498,200
ALTERNATIVE TEACHER DEVELOPMENT PROGRAM	500,000	500,000	500,000

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

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STATE OF ARIZONA  
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GENERAL FUND  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ARIZONA STRUCTURED ENGLISH IMMERSION	4,960,400	4,960,400	4,960,400
BASIC STATE AID DEFERRED PAYMENT	-	930,727,700	930,727,700
BASIC STATE AID ENTITLEMENT	2,573,336,300	2,573,336,300	2,569,714,915
CODE WRITERS INITIATIVE PILOT PROGRAM	-	500,000	500,000
CURRENT YEAR FUNDING BACKFILL	31,000,000	31,000,000	31,000,000
EMPOWERMENT SCHOLARSHIP ACCOUNT	16,420	16,420	16,420
ENGLISH LEARNER ADMINISTRATION	6,507,900	6,495,000	6,495,000
ENGLISH LEARNER TEACHER	238,363	238,363	238,363
FORMER DISTRICT-SPONSORED CHARTER SCHOOLS	1,148,000	1,148,000	1,148,000
GEOGRAPHIC LITERACY	100,000	100,000	100,000
JTED SOFT CAPITAL AND EQUIPMENT	1,000,000	1,000,000	1,000,000
OPERATING LUMP SUM APPROPRIATION - ADMIN	9,538,400	9,471,800	9,470,600
OPERATING LUMP SUM APPROPRIATION-ST BD	-	231,200	231,200
OTHER STATE AID TO DISTRICTS	983,900	983,900	-
SCHOOL SAFETY PROGRAM	5,018,008	5,017,108	4,113,895
SPECIAL EDUCATION FUND	32,242,100	32,242,100	32,242,100
STATE BLOCK GRN FOR VOCATIONAL EDUCATION	11,560,900	11,576,300	11,576,300
SWEEPS	25,900	25,900	25,900
TECH-BASED LANGUAGE DEVELOPMENT	546,800	546,800	314,538
TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND	250,000	250,000	14,255
<b>EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF</b>			
ADEM MATCHING FUND	1,540,900	1,540,900	1,540,900
ADMIN ADJUSTMENT ADMINISTRATION	-	12,416	12,416
ADMINISTRATION	1,819,200	1,812,500	1,804,203
DISASTER DECLARATION	2,082,086	5,782,086	4,000,000
EMERGENCY MANAGEMENT	727,300	727,300	727,300
FEDRUARY 2005 WINTER STORMS	49,785	49,785	-
HAZARD MATERIAL CONTINGENCY	1,897	1,897	-
JANUARY 2010 WINTER STORM	40,484	40,484	40,484
MILITARY AFFAIRS	1,324,400	1,324,400	1,323,814
MILITARY AFFAIRS COMMISSION	64,059	154,059	60,317
SCHULTZ FIRE POST-FIRE FLOOD	64,261	64,261	64,261
SERVICE CONTRACTS	2,445,283	2,445,283	1,214,673
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	173,262	173,262
OPERATING LUMP SUM APPROPRIATION	13,506,500	13,508,000	661,364
SWEEPS	38,900	38,900	38,900
<b>EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	80	80
OPERATING LUMP SUM APPROPRIATION	189,000	189,100	186,953
<b>EQUALIZATION, STATE BOARD OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	25,723	25,723
OPERATING LUMP SUM APPROPRIATION	642,800	643,000	549,630
<b>EXECUTIVE CLEMENCY, BOARD OF</b>			
OPERATING LUMP SUM APPROPRIATION	956,000	952,600	746,579
<b>FINANCIAL INSTITUTIONS, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	12,241	12,241
OPERATING LUMP SUM APPROPRIATION	2,995,400	2,978,200	2,912,785
<b>FIRE, BUILDING AND LIFE SAFETY, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	149	149
<b>FORESTER, OFFICE OF THE STATE</b>			
ADMIN ADJUSTMENT HAZARDOUS VEGETATION REMOVAL	-	632,061	632,061
ADMIN ADJUSTMENT INMATE FIRE CREWS	-	61,000	61,000
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	139,130	139,130
ENVIRONMENTAL COUNTY GRANTS	250,000	250,000	250,000
FIRE SUPPRESSION SLI	1,000,000	1,000,000	1,000,000
GENERAL FUND TRSF TO FIRE SUPPRESSION	-	3,000,000	3,000,000
HAZARDOUS VEGETATION REMOVAL	1,350,000	1,350,000	855,074
INMATE FIRE CREWS	691,000	686,200	605,220
ONE TIME EQUIPMENT	302,500	302,500	302,500
OPERATING LUMP SUM APPROPRIATION	2,953,000	2,939,400	2,894,333
STATE FIRE MARSHAL	747,300	742,600	669,949
STATE FIRE SCHOOL	172,700	172,100	169,912
<b>GAMING, DEPARTMENT OF</b>			
ARIZONA BREEDERS AWARD	-	200,000	200,000
COUNTY FAIR LIVESTOCK AND AGRICULTURAL	1,779,500	1,779,500	1,779,500

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, 2017  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>GENERAL ACCOUNTING OFFICE</b>			
ADMIN ADJUSTMENT GENERAL FUND TRANSFERS	-	300,000	300,000
EQUALIZATION AID - COCHISE	4,878,400	4,878,400	4,878,400
EQUALIZATION AID - GRAHAM	14,695,800	14,695,800	14,695,800
EQUALIZATION AID - NAVAJO	6,081,500	6,081,500	6,081,500
GENERAL FUND TRANSFERS	7,874,377	7,874,377	7,874,377
OPERATING STATE AID - COCHISE	4,670,000	4,670,000	4,670,000
OPERATING STATE AID - COCONINO	1,756,400	1,756,400	1,756,400
OPERATING STATE AID - GILA	315,200	315,200	315,200
OPERATING STATE AID - GRAHAM	2,249,700	2,249,700	2,249,700
OPERATING STATE AID - MOHAVE	1,315,000	1,315,000	1,315,000
OPERATING STATE AID - NAVAJO	1,606,000	1,606,000	1,606,000
OPERATING STATE AID - PINAL	1,724,700	1,724,700	1,724,700
OPERATING STATE AID - SANTA CRUZ	81,200	81,200	81,200
OPERATING STATE AID - YAVAPAI	800,200	800,200	800,200
OPERATING STATE AID - YUMA LA PAZ	2,690,100	2,690,100	2,690,100
RURAL COUNTY REIMBURSEMENT SUBSIDY	1,273,800	1,273,800	1,273,800
STEM AND WORKFORCE PROGRAM STATE AID - COCHISE	1,008,200	1,008,200	1,008,200
STEM AND WORKFORCE PROGRAM STATE AID - COCONINO	418,000	418,000	418,000
STEM AND WORKFORCE PROGRAM STATE AID - GILA	142,500	142,500	142,500
STEM AND WORKFORCE PROGRAM STATE AID - GRAHAM	595,200	595,200	595,200
STEM AND WORKFORCE PROGRAM STATE AID - MOHAVE	505,200	505,200	505,200
STEM AND WORKFORCE PROGRAM STATE AID - NAVAJO	353,700	353,700	353,700
STEM AND WORKFORCE PROGRAM STATE AID - PINAL	96,500	96,500	96,500
STEM AND WORKFORCE PROGRAM STATE AID - YAVAPAI	774,400	774,400	774,400
STEM AND WRKFORCE PROGRAM STATE AID - SANTA CRUZ	61,400	61,400	61,400
STEM AND WRKFORCE PROGRAM STATE AID - YUMA/LAPAZ	864,000	864,000	864,000
SWEEPS	11,881,600	11,881,600	11,881,600
WOOLSEY FLOOD DISTRICT	-	181,766	181,766
<b>GOVERNOR, OFFICE OF THE</b>			
OPERATING LUMP SUM APPROPRIATION - OSPB	2,655,438	2,655,438	2,229,291
OPERATING LUMP SUM APPROPRIATION	7,746,361	7,707,261	6,724,911
<b>HEALTH SERVICES, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	-	1,449,346	1,449,346
ADMIN ADJUSTMENT AIDS REPORTING AND SURVEILLANCE	-	5,647	5,647
ADMIN ADJUSTMENT ARIZONA STATE HOSPITAL - OPERATING	-	1,586,482	1,586,482
ADMIN ADJUSTMENT ASH - SEXUALLY VIOLENT PERSONS	-	546,253	546,253
ADMIN ADJUSTMENT BREAST AND CERVICAL CANCER SCREENING	-	322,739	322,739
ADMIN ADJUSTMENT COUNTY TUBERCULOSIS PROVIDER CARE - CTL	-	49,903	49,903
ADMIN ADJUSTMENT CRISIS SERVICES	-	215,046	215,046
ADMIN ADJUSTMENT HIGH RISK PERINATAL SERVICES	-	194,387	194,387
ADMIN ADJUSTMENT NON MEDICAID SERIOUSLY MENTAL ILL SVS	-	567,509	567,509
ADMIN ADJUSTMENT NON RENAL DISEASE MANAGEMENT	-	151,404	151,404
ADMIN ADJUSTMENT POISON CONTROL CENTER FUNDING	-	161,828	161,828
ADMIN ADJUSTMENT SUPPORTED HOUSING	-	117,543	117,543
ADULT CYSTIC FIBROSIS	105,200	105,200	105,200
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	30,329,400	30,245,600	28,941,403
AIDS REPORTING AND SURVEILLANCE	1,000,000	1,000,000	963,257
ALZHEIMER DISEASE RESEARCH	125,000	125,000	125,000
ARIZONA STATE HOSPITAL - OPERATING	60,131,500	59,835,600	56,834,252
ASH - SEXUALLY VIOLENT PERSONS	9,684,900	9,639,100	8,996,934
ASH CORRECTIVE ACTION PLAN SUP	398,060	398,060	-
ASH-RESTORATION TO COMPETENCY	900,000	900,000	574,456
BREAST AND CERVICAL CANCER SCREENING	1,369,400	1,369,400	896,082
COUNTY TUBERCULOSIS PROVIDER CARE - CTL	590,700	590,700	500,270
HIGH RISK PERINATAL SERVICES	2,093,400	2,093,400	1,856,788
MIDDLE AND HIGH SCHOOL PREVENTION ED PRG	9,739	9,739	-
NON RENAL DISEASE MANAGEMENT	198,000	198,000	-
PEDIATRIC NEUROLOGICAL AUTOIMMUNE DISORDERS	-	250,000	83,390
POISON CONTROL CENTER FUNDING	990,000	990,000	990,000
REG HA DEISPENSERS - AUDIOL PATHOL	62,243	62,243	-
RELIEF	-	2,914	2,914
SWEEPS	3,822,600	3,822,600	3,822,600
TANF PERINATAL SERVICES	47,270	47,270	-
<b>HISTORICAL SOCIETY OF ARIZONA, PRESCOTT</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	18,380	18,380

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, 2017  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION	825,800	824,500	805,934
<b>HISTORICAL SOCIETY, ARIZONA</b>			
ARIZONA EXPERIENCE MUSEUM	428,300	428,300	428,300
FIELD SERVICES AND GRANTS	66,000	66,000	66,000
OPERATING LUMP SUM APPROPRIATION	2,118,500	2,114,100	2,114,100
PAPAGO PARK MUSEUM	544,400	542,800	542,800
<b>HOUSE OF REPRESENTATIVES</b>			
OPERATING LUMP SUM APPROPRIATION	20,352,621	20,264,621	13,316,630
<b>HOUSING, ARIZONA DEPARTMENT OF</b>			
OPERATING LUMP SUM APPROPRIATION	814,800	811,400	811,400
<b>INDEPENDENT REDISTRICTING COMMISSION</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	20,876	20,876
OPERATING EXPENDITURES	86,918	86,918	86,918
OPERATING LUMP SUM APPROPRIATION	1,115,300	1,115,300	945,908
<b>INDIAN AFFAIRS, ARIZONA COMMISSION OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	313	313
OPERATING LUMP SUM APPROPRIATION	57,400	57,500	56,666
<b>INDUSTRIAL COMMISSION OF ARIZONA</b>			
OCCUPATIONAL SAFETY AND HEALTH APPROPRIATION	-	8,293	-
<b>INSURANCE, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	38,277	38,277
OPERATING LUMP SUM APPROPRIATION	5,856,000	5,824,300	5,039,835
<b>JOINT LEGISLATIVE BUDGET COMMITTEE</b>			
OPERATING LUMP SUM APPROPRIATION	5,852,069	5,849,469	2,309,524
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	670,979	670,979
OPERATING LUMP SUM APPROPRIATION	37,345,300	37,028,600	34,967,401
<b>LAND DEPARTMENT, STATE</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	15,128	15,128
CAP USER FEES	769,900	994,400	994,356
DUE DILIGENCE FUND	500,000	500,000	-
NATURAL RESOURCE CONSERVATION DISTRICTS	389,500	389,500	389,500
OPERATING LUMP SUM APPROPRIATION	11,173,200	11,112,000	10,633,192
STREAMBED NAVIGABILITY LITIGATION	220,000	220,000	12,729
<b>LEGISLATIVE COUNCIL</b>			
OMBUDSMAN-CITIZENS AID OFFICE	997,231	994,239	810,626
OPERATING LUMP SUM APPROPRIATION	13,780,450	13,765,542	5,885,767
<b>LIQUOR, LICENSES, AND CONTROL, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	58,646	58,646
ANNUAL REVERSION PER ARS 4-120C	-	200,160	200,160
LICENSING SYSTEM - REPLACEMENT	821,198	821,198	595,002
OPERATING LUMP SUM APPROPRIATION	3,017,600	3,007,400	3,004,422
SWEEPS	500	500	500
<b>MEDICAL STUDENT LOANS, BOARD OF</b>			
MEDICAL STUDENT FINANCIAL ASSIST	656,355	656,355	-
<b>MINE INSPECTOR, STATE</b>			
ABANDONED MINES SAFETY FUND DEPOSIT	194,700	194,700	159,896
ADMIN ADJUSTMENT ABANDONED MINES SAFETY FUND DEPOSIT	-	586	586
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	15,142	15,142
OPERATING LUMP SUM APPROPRIATION	1,020,500	1,017,800	996,817
<b>NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	4,756	4,756
OPERATING LUMP SUM APPROPRIATION	126,600	124,000	122,144
<b>NORTHERN ARIZONA UNIVERSITY</b>			
MEDICAL RESEARCH FND BIO TECHNOLOGY	-	3,000,000	3,000,000
NAU - YUMA	3,066,600	3,065,900	3,065,900
OPERATING LUMP SUM APPROPRIATION	88,102,000	88,623,700	88,623,700
RESEARCH INFRASTRUCTURE LEASE-PURCH PYMT	-	4,246,800	4,246,800
TEACHER TRAINING	2,290,600	2,290,600	2,290,600
<b>OCCUPATIONAL SAFETY AND HEALTH REVIEW BOARD</b>			
OPERATING LUMP SUM APPROPRIATION	8,293	-	-
<b>PARKS BOARD, ARIZONA STATE</b>			
ADMIN ADJUSTMENT KARTCHNER CAVERNS STATE PARK	-	493	493
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	679,476	679,476
GF C/O YARNELL HILL MEMORIAL SITE ACQUIS	5,396	5,396	-

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STATE OF ARIZONA  
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 GENERAL FUND  
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	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
KARTCHNER CAVERNS STATE PARK	2,232,000	2,226,300	1,951,480
OPERATING LUMP SUM APPROPRIATION	10,622,800	10,656,835	9,700,447
SPRF BSF STATE PARKS CAPITAL IMPROVEMENT	3,688,401	3,688,401	503,712
SPRF CH 117 TRANSFER TO AZ TRAIL FUND	150,000	150,000	150,000
SPRF FY17 FEDERAL CONTINGENCY	1,500,000	1,500,000	-
SPRF FY17 SUPPLEMENT MAJOR MAINTENANCE	-	1,500,000	625,874
SWEEPS	115,100	115,100	115,100
<b>POSTSECONDARY EDUCATION, COMMISSION FOR</b>			
ARIZONA COLLEGE AND CAREER GUIDE	21,300	21,300	5,432
AZ MINORITY ED POLICY ANALYSIS CENTER	100,000	100,000	24,494
LEVERAGING EDUCATIONAL ASSISTANCE PARTNERSHIP	2,319,500	2,319,500	2,319,500
MATH AND SCIENCE TEACHER INITIATIVE	176,000	176,000	176,000
OPERATING LUMP SUM APPROPRIATION	184,300	183,600	138,163
SWEEPS	500	500	500
TWELVE PLUS PARTNERSHIP	130,500	130,500	8,660
<b>PUBLIC SAFETY, DEPARTMENT OF</b>			
ACTIC	750,000	750,000	578,308
ADMIN ADJUSTMENT ACTIC	-	195,870	195,870
ADMIN ADJUSTMENT GIITEM	-	274,146	274,146
BORDER STRIKE TASK FORCE LOCAL SUPPORT	1,261,700	1,261,700	766,415
BORDER STRIKE TASK FORCE ONE-TIME	14,600,000	14,600,000	10,332,612
BORDER STRIKE TASK FORCE ONGOING	6,778,800	6,778,800	6,480,075
CIVIL AIR PATROL	150,000	150,000	150,000
GIITEM	22,629,000	22,584,300	21,881,874
GIITEM IMPACT APPROPRIATION	2,942,626	2,942,626	2,436,451
GIITEM SUBACCOUNT	2,390,000	2,390,000	2,227,438
MICROWAVE COMMUNICATION SYSTEM UPGRADE	2,100	2,100	(724)
MOTOR VEHICLE FUEL	4,384,200	4,384,200	3,338,932
OPERATING LUMP SUM APPROPRIATION	71,751,200	71,588,100	71,588,100
SEXUAL ASSAULT KIT TESTING	500,000	500,000	499,727
SWEEPS	3,600	3,600	3,600
<b>RADIATION REGULATORY AGENCY</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	2,241	2,241
NUCLEAR EMERGENCY MANAGEMENT FUND	-	789,663	789,663
OPERATING LUMP SUM APPROPRIATION	1,354,000	1,349,900	1,328,121
SWEEPS	14,300	14,300	14,300
<b>REAL ESTATE DEPARTMENT, STATE</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	109,931	109,931
OPERATING LUMP SUM APPROPRIATION	3,004,000	2,994,900	2,344,319
<b>REGENTS, ARIZONA BOARD OF</b>			
ARIZONA TEACHERS INCENTIVE PROGRAM	90,000	90,000	90,000
AZ TRANSFER ARTICULATION SUPPORT SYSTEM	213,700	213,700	213,700
CAPITAL IMPROVEMENT	19,000,000	19,000,000	19,000,000
OPERATING LUMP SUM APPROPRIATION	2,352,500	2,352,500	2,352,458
PERFORMANCE FUNDING	5,000,000	5,000,000	5,000,000
STUDENT FINANCIAL ASSISTANCE	10,041,200	10,041,200	10,041,200
WESTERN INTERSTATE COMMISSION OFFICE	141,000	145,000	145,000
WICHE STUDENT SUBSIDIES	4,090,000	4,086,000	4,086,000
<b>REVENUE, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT BRITS OPERATIONAL SUPPORT	-	82,930	82,930
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	1,029,229	1,029,229
BRITS OPERATIONAL SUPPORT	7,538,900	7,497,500	7,312,677
INCOME TAX FRAUD PREVENTION	3,150,000	3,150,000	2,827,927
OPERATING LUMP SUM APPROPRIATION	63,015,400	62,718,500	59,205,152
SWEEPS	1,062,100	1,062,100	1,062,100
TPT SIMPLIFICATION	990,600	970,400	872,758
UNCLAIMED PROPERTY ADMINISTRATION-AUDIT	1,218,500	1,918,500	1,747,596
<b>SCHOOL FACILITIES BOARD</b>			
ADMIN ADJUSTMENT ACCESS OUR BEST PUBLIC SCHOOLS FUNDING	-	23,900,000	23,900,000
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	32,716	32,716
BUILDING RENEWAL GRANT	31,667,900	31,667,900	31,667,900
NEW SCHOOL CONSTRUCTION	24,253,200	24,253,200	24,253,200
NEW SCHOOL FACILITIES DEBT SERVICE	170,006,600	170,006,600	170,006,600
OPERATING LUMP SUM APPROPRIATION	1,672,500	1,666,700	1,502,248
PUBLIC SCHOOL CREDIT ENHANCEMENT TRANSACTION COSTS	-	500,000	500,000

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

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STATE OF ARIZONA  
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**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
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 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>SECRETARY OF STATE</b>			
ADMIN ADJUSTMENT ELECTION SERVICES	-	4,238,540	4,238,540
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	403,105	403,105
BUILDING RENOVATION AND CODE COMPLIANCE	102,797	102,797	-
ELECTION SERVICES	3,390,800	2,678,800	2,356,717
ELECTION SERVICES MAY 17	9,300,000	9,300,000	6,255,647
HELP AMERICA VOTE ACT	5,158,426	5,158,026	1,054,656
LIBRARY GRANTS-IN-AID	901,635	901,635	673,207
OPERATING LUMP SUM APPROPRIATION	11,609,300	12,282,400	11,995,853
STATEWIDE RADIO READING SVC FOR BLIND	97,000	97,000	97,000
<b>SENATE</b>			
BORDER SECURITY TRUST FUND	44,419	44,419	-
OPERATING LUMP SUM APPROPRIATION	10,342,975	10,277,575	8,905,630
<b>SUPREME COURT</b>			
ADMIN ADJUSTMENT CENTRALIZED SERVICE PAYMENTS	-	84,071	84,071
ADMIN ADJUSTMENT DOMESTIC RELATIONS	-	10,345	10,345
ADMIN ADJUSTMENT FOSTER CARE REVIEW BOARD	-	7,963	7,963
ADMIN ADJUSTMENT JUDICIAL NOMINATION - PERFORMANCE REVIEW	-	353	353
ADMIN ADJUSTMENT OPERATING LUMP SUM	-	6,649	6,649
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	52,809	52,809
ADULT INTENSIVE PROBATION	8,831,700	9,184,073	9,184,073
ADULT STANDARD PROBATION	13,090,100	13,392,500	13,392,500
AUTOMATION	6,884,800	6,849,400	5,861,540
CENTRALIZED SERVICE PAYMENTS	3,008,100	3,008,100	2,904,458
COMMISSION ON JUDICIAL CONDUCT	505,000	498,600	495,495
COUNTY REIMBURSEMENTS	187,900	187,900	187,900
DEPENDENCY SURGE	3,000,000	3,000,000	1,229,565
DOMESTIC RELATIONS	621,000	613,400	610,752
DRUG COURT	1,054,922	1,054,922	993,600
FOSTER CARE REVIEW BOARD	3,212,300	3,178,500	3,177,533
INTERSTATE COMPACT	334,700	334,700	331,992
JUDGES COMPENSATION	8,288,500	8,288,500	8,071,818
JUDICIAL NOMINATION - PERFORMANCE REVIEW	413,500	409,100	408,632
JUVENILE DIVERSION CONSEQUENCES	8,157,800	8,157,800	8,157,800
JUVENILE FAMILY COUNSELING	500,000	500,000	500,000
JUVENILE INTENSIVE PROBATION	5,612,400	5,285,024	5,285,024
JUVENILE STANDARD PROBATION	3,700,600	3,373,203	3,373,203
JUVENILE TREATMENT SERVICES	19,960,900	19,960,900	19,960,900
MODEL COURT	437,600	437,600	437,382
OPERATING LUMP SUM	3,879,400	3,879,400	3,875,496
OPERATING LUMP SUM APPROPRIATION	10,396,900	10,294,800	10,101,843
SPECIAL WATER MASTER	160,000	160,000	144,403
WAAS UPGRADE	948,700	948,700	948,700
<b>TAX APPEALS, STATE BOARD OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	483	483
OPERATING LUMP SUM APPROPRIATION	266,400	266,600	266,563
<b>TOURISM, OFFICE OF</b>			
TOURISM FUND DEPOSIT	7,110,400	7,112,000	7,112,000
<b>TRANSPORTATION, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	687	687
HURF TO GENERAL FUND	-	30,000,000	30,000,000
INTERSTATE 10 PROJECTS	30,000,000	30,000,000	-
NAVAJO NATION TRANSPORTATION PROJECT	1,500,000	1,500,000	1,500,000
OPERATING LUMP SUM APPROPRIATION	50,400	50,400	49,778
SR189 CONSTRUCTION PROJECTS	25,000,000	25,000,000	-
<b>TREASURER, STATE</b>			
ADMIN ADJUSTMENT JUSTICE OF THE PEACE SALARIES	-	193,177	193,177
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	36,927	36,927
BUDGET STABILIZATION INTEREST TRANSFERS	1,500,000	1,500,000	1,500,000
COM COL REIMBURSEMENT ARS 15-1469-01	-	2,730,600	2,730,600
CORPORATE INCOME TAX TRANSFER	-	2,823,600	2,823,600
JUSTICE OF THE PEACE SALARIES	1,205,100	1,205,100	889,294
OPERATING LUMP SUM APPROPRIATION	2,848,100	2,834,300	2,789,370
SWEEPS	13,000	13,000	13,000
<b>UNIVERSITY OF ARIZONA</b>			
AGRICULTURE	28,240,300	31,111,746	31,111,746

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, 2017  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ARIZONA COOPERATIVE EXTENSION	14,317,700	14,598,584	14,598,584
CLINICAL RURAL ROTATION	350,500	356,300	356,300
CLINICAL TEACHING SUPPORT	8,484,400	8,689,595	8,689,595
FREEDOM CENTER	2,500,000	2,500,000	2,500,000
LIVER RESEARCH INSTITUTE	450,600	440,100	440,100
OPERATING LUMP SUM APPROPRIATION - HSC	34,838,000	40,775,352	40,775,352
OPERATING LUMP SUM APPROPRIATION - MAIN	124,420,900	116,608,800	116,608,800
PHOENIX MEDICAL CAMPUS	22,667,200	23,256,200	23,256,200
RESEARCH INFRASTRUCTURE FACILITIES	-	13,978,400	13,978,400
SIERRA VISTA CAMPUS	2,482,200	3,507,023	3,507,023
TELEMEDICINE NETWORK	1,838,500	1,669,000	1,669,000
<b>VETERANS' SERVICES, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT ARIZONA STATE VETERANS CEMETERIES	-	10,090	10,090
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	18,787	18,787
ADMIN ADJUSTMENT VETERANS BENEFIT COUNSELING	-	15,125	15,125
ARIZONA STATE VETERANS CEMETERIES	928,000	924,200	913,889
ASVH - YUMA CONSTRUCTION	9,200,000	9,200,000	-
ASVH FLAGSTAFF CONSTRUCTION	10,000,000	10,000,000	-
MILITARY FAMILY RELIEF FUND	15,291	15,291	-
OPERATING LUMP SUM APPROPRIATION	2,316,100	2,308,800	2,272,431
VETERANS BENEFIT COUNSELING	2,833,700	2,821,100	2,690,557
<b>WATER RESOURCES, DEPARTMENT OF</b>			
ADJUDICATION SUPPORT	1,251,800	1,247,800	1,245,537
ADMIN ADJUSTMENT ASSURED - ADEQUATE WATER SUPPLY ADMIN	-	100	100
ADMIN ADJUSTMENT AUTOMATED GROUNDWATER MONITORING	-	17,397	17,397
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	-	195,687	195,687
ADMIN ADJUSTMENT RURAL WATER STUDIES	-	4,367	4,367
ASSURED - ADEQUATE WATER SUPPLY ADMIN	1,716,600	1,711,000	1,628,865
AUTOMATED GROUNDWATER MONITORING	409,400	408,700	234,220
CONSERVATION AND DROUGHT PROGRAM	408,300	406,900	396,671
LOWER COLORADO RIVER LITIGATION EXPENSES	1,518,708	1,518,708	34,130
OPERATING LUMP SUM APPROPRIATION	7,352,500	7,326,500	6,948,377
RURAL WATER STUDIES	1,164,500	1,161,700	1,084,273
<b>WEIGHTS AND MEASURES, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT GENERAL SERVICES	-	785	785
<b>TOTAL GENERAL FUND BUDGETARY EXPENDITURES</b>	<b>\$ 20,390,506,600</b>	<b>\$ 22,448,739,014</b>	<b>\$ 21,212,181,140</b>

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



STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 TRANSPORTATION AND AVIATION PLANNING,  
 HIGHWAY MAINTENANCE AND SAFETY FUND  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>TRANSPORTATION, DEPARTMENT OF</b>			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	\$ -	\$ 4,883,363	\$ 4,883,363
AIRPORT PLANNING AND DEVELOPMENT	36,567,757	36,567,757	18,832,948
ATTORNEY GENERAL LEGAL SERVICES	3,577,700	3,577,700	3,477,700
BUILDING RENEWAL	6,912,621	6,912,621	3,992,199
DE ICER BUILDINGS	2,268,877	2,268,877	1,871,487
FRAUD INVESTIGATION	767,000	767,000	744,275
HIGHWAY MAINTENANCE	151,563,352	151,563,352	143,375,358
HIGHWAY CONSTRUCTION/REPAIR DISTRIBUTION	-	3,185,200	-
MOTOR VEHICLE LIABILITY ENFORCEMENT FUND TRANSFER	1,100,000	1,100,000	1,100,000
NEW THIRD PARTY FUNDING	631,800	629,600	555,107
OPERATING LUMP SUM APPROPRIATION	205,281,200	203,967,400	199,050,617
PHOENIX AREA FREEWAY LIGHTING	1,500,000	1,500,000	1,499,837
RELIEF	-	6,407	6,407
STATEWIDE DRAINAGE STRUCTURES	4,300,000	4,300,000	4,300,000
STATEWIDE HIGHWAY CONSTRUCTION	489,062,381	489,062,381	154,289,245
SWEEPS	4,554,300	4,554,300	4,554,300
VEHICLE WASH SYSTEM	11,692,805	8,507,605	4,202,627
<b>TOTAL TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND BUDGETARY EXPENDITURES</b>	<b>\$ 919,779,793</b>	<b>\$ 923,353,563</b>	<b>\$ 546,735,470</b>

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES  
 JUNE 30, 2017

**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, 2016 that affect available appropriations during fiscal year 2017. The final budget represents any appropriation bills passed during fiscal year 2017 for fiscal year 2017 plus the original budget. Appropriation bills passed after the end of fiscal year 2017 for fiscal year 2017 would also be included in the final budget.

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

	<b>General Fund</b>	<b>Transportation &amp; Aviation Planning, Highway Maintenance &amp; Safety Fund</b>
<b>Uses/outflows of resources</b>		
Actual expenditure amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$ 21,212,181	\$ 546,735
Differences – budget to GAAP:		
Increase in unpaid incurred expenditures from fiscal year end 2016 to fiscal year end 2017.	148,406	503,638
Increase in unpaid payroll expenditures from fiscal year end 2016 to fiscal year end 2017. For budgetary reporting, final June 2016 payroll expenditures were charged to fiscal year 2017 budget and final June 2017 payroll expenditures were charged to fiscal year 2018 budget.	25,619	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,352,210	-
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.	685,082	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	39,656	-
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2017.	2,204,959	1,864,165
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(922,658)	(273,873)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 24,745,455	\$ 2,640,665

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, 2017

**B. BUDGETARY BASIS OF ACCOUNTING**

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

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

The State prepares its operating budget on the cash basis of accounting. At the time of the appropriation bill's passage, estimates prepared by legislative and executive branch professional staff assure the State Legislature that adequate revenues will be available to meet the level of appropriations approved. Anticipated revenue is estimated on the cash basis but is not part of the legally adopted budget. Consequently, the accompanying Budgetary Comparison Schedules only present budget to actual expenditure comparisons.

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

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

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

Lump Sum with Special Line Items – The appropriation of an agency for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include Full Time Equivalent positions. Agencies are typically permitted to transfer funding between line items with ADOA approval but without further Legislative Branch review. Footnotes may require Joint Legislative Budget Committee review, however, prior to transfers between certain line items.

During the fiscal year, \$2.1 billion in supplemental appropriations, net of mid-year reversions and adjustments, were provided to the General Fund. The Transportation and Aviation Planning, Highway Maintenance and Safety Fund appropriations increased by \$3.6 million. These amounts are included in the Budgetary Comparison Schedules.

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

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

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

All expenditures of the State's money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature.

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
JUNE 30, 2017

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), as amended, the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,780 center lane miles (21,532 travel lane miles) of roads and 4,866 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 2017 and beyond was adopted by the Transportation Board on June 17, 2016.

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

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

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

### **Roads**

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2017

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 2017, an overall rating of 3.67 was achieved, as shown in the following graph:

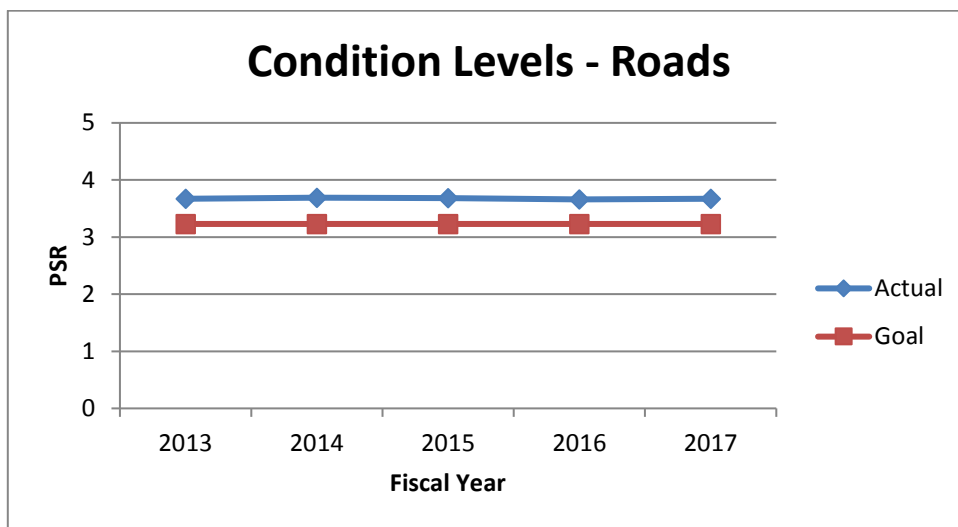


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT’s PMS, as well as other units within the ADOT. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2013 through 2017 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2013	\$276.3	\$291.3
2014	\$271.2	\$287.2
2015	\$249.5	\$300.6
2016	\$272.0	\$317.0
2017	\$322.4	\$186.4

**Bridges**

The State’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2017, the State owned and maintained 4,866 bridges with an approximate total deck area of 48,863,940 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 AASHTO’s Bridge Management System (BMS). This system is used to efficiently manage the bridge inventory through storing all bridge related data

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2017

and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, BMS is used for reporting bridge inventory and condition, on an annual basis, to the Federal Highway Administration (FHWA).

Historically, a Condition Rating Index (CRI) has been used to track the condition of the bridge network. The CRI was based on four selected bridge inspection condition ratings, which in turn are based on standards established in the FHWA’s “Recording and Coding Guide for the Structural Inventory of the Nation’s Bridges.”

In 2015, the FHWA issued new rules which have had the effect of replacing the CRI as the summary statistic for bridge condition. Instead, the various states are expected to maintain their bridges so that no more than 10% are classified as Poor. Financial sanctions are held against states that do not comply with this standard. Management of the bridge inventory is a major function of the State’s Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. In fiscal year 2017, 1.6% of bridges maintained by the states were classified as Poor.

Bridges represent a major public investment, and their inspection and maintenance is an essential function of the State in its mission of providing products and services for a safe, efficient, and cost-effective transportation system. Figure 2 indicates that approximately 55% of the bridges in the State were constructed prior to the 1970s while only 16% have been constructed since 2000.

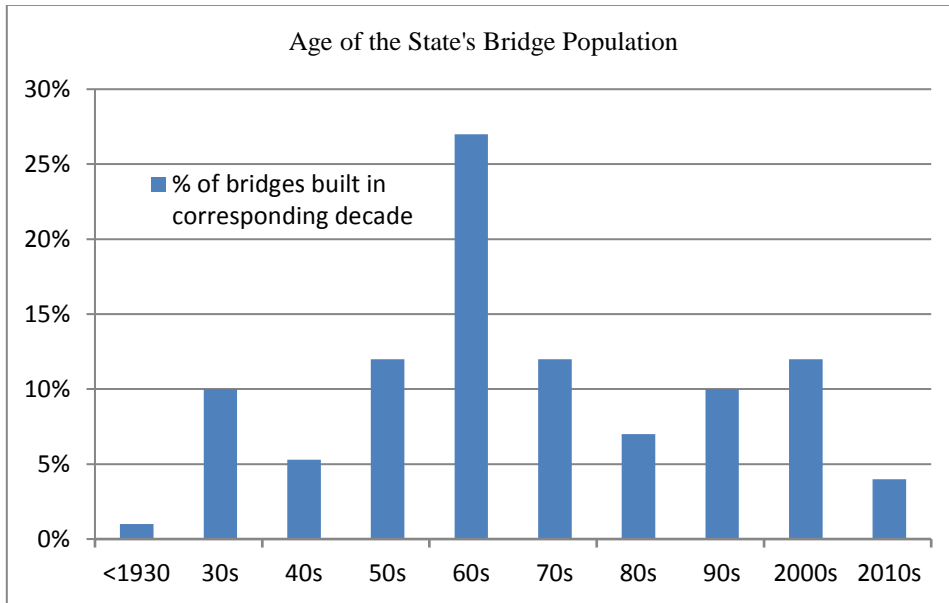


Figure 2

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2013 through 2017 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2013	\$14.7	\$10.7
2014	\$21.2	\$20.5
2015	\$13.7	\$21.9
2016	\$11.6	\$39.8
2017	\$28.8	\$23.4

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**ARIZONA STATE RETIREMENT SYSTEM**  
 FOR THE LAST THREE FISCAL YEARS (1)  
 JUNE 30, 2017  
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)		
	2017 (2016)	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	21.75%	21.67%	21.36%
State's proportionate share of the net pension liability	\$ 3,510,533	\$ 3,375,283	\$ 3,160,809
State's covered payroll	\$ 2,039,238	\$ 1,999,691	\$ 1,939,038
State's proportionate share of the net pension liability as a percentage of its covered payroll	172.15%	168.79%	163.01%
Plan fiduciary net position as a percentage of the total pension liability	67.06%	68.35%	69.49%

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 ELECTED OFFICIALS' RETIREMENT PLAN**  
 FOR THE LAST THREE FISCAL YEARS (1)  
 JUNE 30, 2017  
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)		
	2017 (2016)	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	18.44%	18.67%	18.16%
State's proportionate share of the net pension liability	\$ 174,204	\$ 145,898	\$ 121,797
State's covered payroll	\$ 12,794	\$ 12,987	\$ 12,604
State's proportionate share of the net pension liability as a percentage of its covered payroll	1,361.61%	1,123.42%	966.34%
Plan fiduciary net position as a percentage of the total pension liability	23.42%	28.32%	31.91%

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY,  
 AS A NONEMPLOYER CONTRIBUTING ENTITY**  
**ELECTED OFFICIALS' RETIREMENT PLAN**  
 FOR THE LAST THREE FISCAL YEARS (1)  
 JUNE 30, 2017  
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)		
	2017 (2016)	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	13.96%	19.33%	19.20%
State's proportionate share of the net pension liability	\$ 131,871	\$ 151,048	\$ 128,776
Plan fiduciary net position as a percentage of the total pension liability	23.42%	28.32%	31.91%

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

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



STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS**  
**PSPRS DEPARTMENT OF PUBLIC SAFETY**  
 FOR THE LAST THREE FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)		
	2017 (2016)	2016 (2015), as restated	2015 (2014), as restated
<b>Total pension liability</b>			
Service cost	\$ 14,131	\$ 13,258	\$ 13,111
Interest on the total pension liability	78,000	77,421	66,664
Changes of benefit terms	27,674	-	23,768
Differences between expected and actual experience in the measurement of the pension liability	(9,237)	(6,328)	(3,711)
Changes of assumptions or other inputs	35,783	-	107,172
Benefit payments, including refunds of employee contributions	(84,231)	(70,586)	(69,497)
Net change in total pension liability	62,120	13,765	137,507
Total pension liability - beginning	1,028,687	1,014,922	877,415
Total pension liability - ending (a)	\$ 1,090,807	\$ 1,028,687	\$ 1,014,922
<b>Plan fiduciary net position</b>			
Contributions - employer (2)	\$ 52,115	\$ 36,889	\$ 31,458
Contributions - employee (2)	9,334	7,857	7,587
Net investment income	1,963	12,867	46,223
Benefit payments, including refunds of employee contributions	(84,231)	(70,586)	(69,497)
Administrative expense	(283)	(317)	(372)
Other changes	545	150	393
Net change in plan fiduciary net position	(20,557)	(13,140)	15,792
Plan fiduciary net position - beginning	348,114	361,254	345,462
Plan fiduciary net position - ending (b)	\$ 327,557	\$ 348,114	\$ 361,254
<b>State's net pension liability - ending (a) - (b)</b>	\$ 763,250	\$ 680,573	\$ 653,668
Plan fiduciary net position as a percentage of the total pension liability	30.03%	33.84%	35.59%
Covered payroll (2)	\$ 68,573	\$ 66,707	\$ 63,334
State's net pension liability as a percentage of covered payroll (2)	1,113.05%	1,020.24%	1,032.10%

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

(2) Due to the implementation of GASB Statement No. 82, fiscal years 2015 through 2016 were restated for the classification of employer-paid member contributions.

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF CHANGES IN THE STATE'S NET PENSION LIABILITY AND RELATED RATIOS**  
**CORP DEPARTMENT OF CORRECTIONS**  
 FOR THE LAST THREE FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)		
	2017 (2016)	2016 (2015)	2015 (2014)
<b>Total pension liability</b>			
Service cost	\$ 47,529	\$ 47,131	\$ 48,061
Interest on the total pension liability	111,087	108,123	92,486
Changes of benefit terms	2,464	-	21,354
Differences between expected and actual experience in the measurement of the pension liability	(36,180)	(30,179)	(3,818)
Changes of assumptions or other inputs	58,949	-	125,557
Benefit payments, including refunds of employee contributions	(90,460)	(84,586)	(83,365)
Net change in total pension liability	93,389	40,489	200,275
Total pension liability - beginning	1,436,586	1,396,097	1,195,822
Total pension liability - ending (a)	\$ 1,529,975	\$ 1,436,586	\$ 1,396,097
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 60,984	\$ 43,105	\$ 40,166
Contributions - employee	27,824	27,734	27,722
Net investment income	4,831	28,414	96,216
Benefit payments, including refunds of employee contributions	(90,460)	(84,586)	(83,365)
Administrative expense	(683)	(704)	(757)
Other changes	(340)	(1,040)	(446)
Net change in plan fiduciary net position	2,156	12,923	79,536
Plan fiduciary net position - beginning	788,928	776,005	696,469
Plan fiduciary net position - ending (b)	\$ 791,084	\$ 788,928	\$ 776,005
<b>State's net pension liability - ending (a) - (b)</b>	\$ 738,891	\$ 647,658	\$ 620,092
Plan fiduciary net position as a percentage of the total pension liability	51.71%	54.92%	55.58%
Covered payroll	\$ 330,538	\$ 327,798	\$ 326,819
State's net pension liability as a percentage of covered payroll	223.54%	197.58%	189.74%

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF STATE PENSION CONTRIBUTIONS**  
**ARIZONA STATE RETIREMENT SYSTEM**  
 FOR THE LAST FOUR FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Fiscal Year			
	2017	2016	2015	2014
Statutorily required contribution	\$ 224,788	\$ 220,982	\$ 217,388	\$ 206,040
State's contributions in relation to the statutorily required contribution	224,788	220,982	217,388	206,040
State's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
State's covered payroll	\$ 2,087,717	\$ 2,039,238	\$ 1,999,691	\$ 1,939,038
State's contributions as a percentage of covered payroll	10.77%	10.84%	10.87%	10.63%

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF STATE PENSION CONTRIBUTIONS**  
**ELECTED OFFICIALS' RETIREMENT PLAN**  
 FOR THE LAST FOUR FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Fiscal Year			
	2017	2016	2015	2014
Statutorily required contribution (2)	\$ 3,389	\$ 3,805	\$ 3,928	\$ 3,870
State's contributions in relation to the statutorily required contribution (2)	3,389	3,805	3,928	3,870
State's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
State's covered payroll	\$ 10,895	\$ 12,794	\$ 12,987	\$ 12,604
State's contributions as a percentage of covered payroll	31.11%	29.74%	30.25%	30.70%

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF STATE PENSION CONTRIBUTIONS,**  
**AS A NONEMPLOYER CONTRIBUTING ENTITY**  
**ELECTED OFFICIALS' RETIREMENT PLAN**  
 FOR THE LAST FOUR FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Fiscal Year			
	2017	2016	2015	2014
Statutorily required contribution (2)	\$ 4,171	\$ 4,078	\$ 4,066	\$ 4,092
State's contributions in relation to the statutorily required contribution (2)	4,171	4,078	4,066	4,092
State's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF STATE PENSION CONTRIBUTIONS**  
**PSPRS DEPARTMENT OF PUBLIC SAFETY**  
 FOR THE LAST FOUR FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Fiscal Year			
	2017	2016, as restated	2015, as restated	2014, as restated
Actuarially determined contribution	\$ 60,271	\$ 52,115	\$ 36,889	\$ 31,458
State's contributions in relation to the actuarially determined contribution (2)	60,271	52,115	36,889	31,458
State's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
State's covered payroll (2)	\$ 77,310	\$ 68,573	\$ 66,707	\$ 63,334
State's contributions as a percentage of covered payroll (2)	77.96%	76.00%	55.30%	49.67%

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

(2) Due to the implementation of GASB Statement No. 82, fiscal years 2014 through 2016 were restated for the classification of employer-paid member contributions.

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF STATE PENSION CONTRIBUTIONS**  
**CORP DEPARTMENT OF CORRECTIONS**  
 FOR THE LAST FOUR FISCAL YEARS (1)  
 FISCAL YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	Fiscal Year			
	2017	2016	2015	2014
Actuarially determined contribution	\$ 62,909	\$ 60,984	\$ 43,105	\$ 40,166
State's contributions in relation to the actuarially determined contribution	62,909	60,984	43,105	40,166
State's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
State's covered payroll	\$ 335,694	\$ 330,538	\$ 327,798	\$ 326,819
State's contributions as a percentage of covered payroll	18.74%	18.45%	13.15%	12.29%

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION PLAN SCHEDULES**  
 JUNE 30, 2017

**A. ACTUARIALLY DETERMINED CONTRIBUTION RATES**

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

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period, as of the 2015 actuarial valuation	21 years for unfunded actuarial liability, 20 years for excess
Asset valuation method	7-year smoothed market value, 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS and from 4.5%-7.75% to 4.0%-7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%–9.0% to 4.5%–8.5% for PSPRS and from 5.0%–8.25% to 4.5%–7.75% for CORP.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 - June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

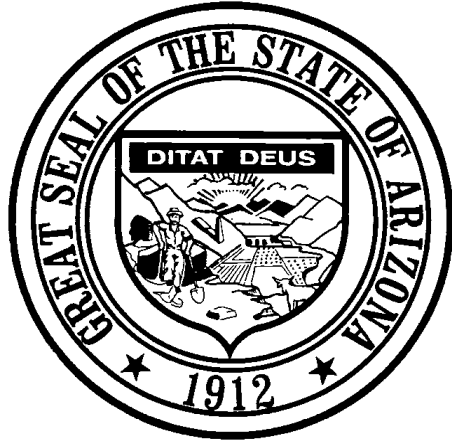
**B. FACTORS THAT AFFECT TRENDS**

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**SINGLE-EMPLOYER OPEB PLAN FUNDING PROGRESS**  
 JUNE 30, 2017

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

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	(Unfunded) AAL	Funded Ratio	Annual Covered Payroll	(Unfunded) AAL as a Percentage of Covered Payroll
6/30/2016	-	\$ 1,182,155	\$ (1,182,155)	0.0%	\$ 3,496,022	(33.8)%
6/30/2014	-	254,365	(254,365)	0.0%	3,230,344	(7.9)%
6/30/2012	-	226,169	(226,169)	0.0%	2,791,581	(8.1)%





**COMBINING FINANCIAL  
STATEMENTS AND  
SCHEDULES**



## **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**

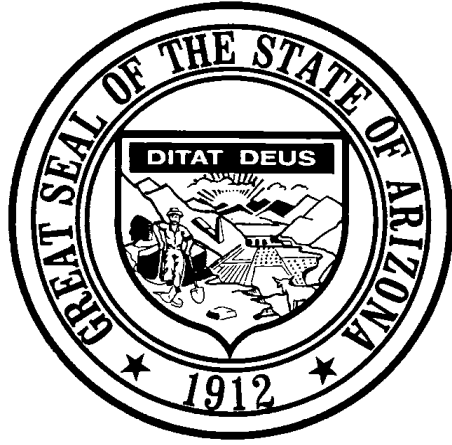
*Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Pension Trust Funds or Component Units).*

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ 2,299	\$ -	\$ -	\$ 2,299
Cash and pooled investments with State Treasurer	900,949	3,900	-	904,849
Collateral investment pool	2,644	-	-	2,644
Receivables, net of allowances:				
Taxes	87,896	-	-	87,896
Other	27,211	-	-	27,211
Due from U.S. Government	24,122	-	-	24,122
Due from other Funds	89,891	3,751	-	93,642
Restricted assets:				
Cash and pooled investments with State Treasurer	383,802	46,254	7,396	437,452
Cash held by trustee	261	34,358	-	34,619
Other	836	-	-	836
<b>Total Assets</b>	<b>\$ 1,519,911</b>	<b>\$ 88,263</b>	<b>\$ 7,396</b>	<b>\$ 1,615,570</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other current liabilities	\$ 48,615	\$ -	\$ 4,953	\$ 53,568
Accrued liabilities	66,133	-	-	66,133
Obligations under securities loan agreements	2,644	-	-	2,644
Due to local governments	144,008	-	-	144,008
Due to others	13,589	-	-	13,589
Due to other Funds	13,092	-	-	13,092
Unearned revenue	1,504	-	-	1,504
<b>Total Liabilities</b>	<b>289,585</b>	<b>-</b>	<b>4,953</b>	<b>294,538</b>
Deferred Inflows of Resources:				
Unavailable revenue	480	-	-	480
Fund Balances:				
Restricted	544,328	88,263	2,443	635,034
Committed	685,518	-	-	685,518
<b>Total Fund Balances</b>	<b>1,229,846</b>	<b>88,263</b>	<b>2,443</b>	<b>1,320,552</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 1,519,911</b>	<b>\$ 88,263</b>	<b>\$ 7,396</b>	<b>\$ 1,615,570</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>REVENUES</b>				
Taxes:				
Sales	\$ 538,236	\$ 64,143	\$ -	\$ 602,379
Tobacco	252,945	-	-	252,945
Motor vehicle and fuel	151,922	-	-	151,922
Other	110,601	-	-	110,601
Intergovernmental	195,552	-	-	195,552
Licenses, fees, and permits	306,051	-	-	306,051
Hospital and nursing facility assessments	292,049	-	-	292,049
Earnings on investments	68,601	1,315	712	70,628
Sales and charges for services	61,104	-	-	61,104
Fines, forfeitures, and penalties	107,021	-	-	107,021
Gaming	82,827	-	-	82,827
Other	56,427	139	-	56,566
Total Revenues	<u>2,223,336</u>	<u>65,597</u>	<u>712</u>	<u>2,289,645</u>
<b>EXPENDITURES</b>				
Current:				
General government	122,196	3,632	-	125,828
Health and welfare	710,209	-	-	710,209
Inspection and regulation	119,894	-	-	119,894
Education	814,211	-	-	814,211
Protection and safety	306,647	-	-	306,647
Transportation	-	-	6,055	6,055
Natural resources	138,892	-	-	138,892
Intergovernmental revenue sharing	-	-	42	42
Debt service:				
Principal	2,782	462,515	-	465,297
Interest and other fiscal charges	1,609	187,214	-	188,823
Capital outlay	27,529	-	131,456	158,985
Total Expenditures	<u>2,243,969</u>	<u>653,361</u>	<u>137,553</u>	<u>3,034,883</u>
(Deficiency) of Revenues Over Expenditures	<u>(20,633)</u>	<u>(587,764)</u>	<u>(136,841)</u>	<u>(745,238)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	145,330	469,141	-	614,471
Transfers out	(74,033)	(5,038)	-	(79,071)
Capital lease and installment purchase contracts	3,592	-	-	3,592
Certificates of participation issued	-	119,880	-	119,880
Refunding GANs issued	-	90,410	-	90,410
Refunding bonds issued	-	312,900	-	312,900
Payment to refunded bond escrow agent	-	(389,350)	-	(389,350)
Payment to refunded GANs escrow agent	-	(112,128)	-	(112,128)
Premium on debt issued	-	117,390	-	117,390
Total Other Financing Sources (Uses)	<u>74,889</u>	<u>603,205</u>	<u>-</u>	<u>678,094</u>
Net Change in Fund Balances	54,256	15,441	(136,841)	(67,144)
Fund Balances - Beginning	1,175,590	72,822	139,284	1,387,696
Fund Balances - Ending	<u>\$ 1,229,846</u>	<u>\$ 88,263</u>	<u>\$ 2,443</u>	<u>\$ 1,320,552</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, 2017  
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
<b>ASSETS</b>						
Cash	\$ 2,253	\$ -	\$ -	\$ -	\$ -	\$ 16
Cash and pooled investments with State Treasurer	112,414	131,488	156,797	10,949	94,173	171,257
Collateral investment pool	-	-	-	2,644	-	-
Receivables, net of allowances:						
Taxes	5,673	270	6,980	16,242	-	-
Other	1	136	7,783	-	5	4,236
Due from U.S. Government	-	-	24,122	-	-	-
Due from other Funds	6,202	6,793	4,989	486	1,213	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	798	383,004	-	-
Cash held by trustee	-	-	-	-	-	-
Other	836	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 127,379</b>	<b>\$ 138,687</b>	<b>\$ 201,469</b>	<b>\$ 413,325</b>	<b>\$ 95,391</b>	<b>\$ 175,509</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>						
Liabilities:						
Accounts payable and other current liabilities	\$ 25,182	\$ 3,720	\$ 8,175	\$ 5,407	\$ 1,422	\$ 1,755
Accrued liabilities	8,826	778	48,523	569	1,160	3,574
Obligations under securities loan agreements	-	-	-	2,644	-	-
Due to local governments	-	-	-	-	-	-
Due to others	-	-	-	12,977	181	417
Due to other Funds	-	275	2,052	3,531	-	7,234
Unearned revenue	-	87	616	-	-	801
<b>Total Liabilities</b>	<b>34,008</b>	<b>4,860</b>	<b>59,366</b>	<b>25,128</b>	<b>2,763</b>	<b>13,781</b>
Deferred Inflows of Resources:						
Unavailable revenue	-	-	480	-	-	-
Fund Balances:						
Restricted	-	-	43,487	388,197	7,360	2,000
Committed	93,371	133,827	98,136	-	85,268	159,728
<b>Total Fund Balances</b>	<b>93,371</b>	<b>133,827</b>	<b>141,623</b>	<b>388,197</b>	<b>92,628</b>	<b>161,728</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 127,379</b>	<b>\$ 138,687</b>	<b>\$ 201,469</b>	<b>\$ 413,325</b>	<b>\$ 95,391</b>	<b>\$ 175,509</b>



GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,299
57,326	14,792	34,658	71,207	19,222	26,666	900,949
-	-	-	-	-	-	2,644
-	-	-	58,731	-	-	87,896
1,912	-	-	13,136	-	2	27,211
-	-	-	-	-	-	24,122
-	158	-	70,050	-	-	89,891
-	-	-	-	-	-	383,802
261	-	-	-	-	-	261
-	-	-	-	-	-	836
<u>\$ 59,529</u>	<u>\$ 14,950</u>	<u>\$ 34,658</u>	<u>\$ 213,124</u>	<u>\$ 19,222</u>	<u>\$ 26,668</u>	<u>\$ 1,519,911</u>

\$ 1,706	\$ 510	\$ 21	\$ 553	\$ 111	\$ 53	\$ 48,615
2,104	220	139	172	39	29	66,133
-	-	-	-	-	-	2,644
-	-	-	144,008	-	-	144,008
-	-	14	-	-	-	13,589
-	-	-	-	-	-	13,092
-	-	-	-	-	-	1,504
<u>3,810</u>	<u>730</u>	<u>174</u>	<u>144,733</u>	<u>150</u>	<u>82</u>	<u>289,585</u>

-	-	-	-	-	-	480
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8,307	-	-	68,391	-	26,586	544,328
47,412	14,220	34,484	-	19,072	-	685,518
<u>55,719</u>	<u>14,220</u>	<u>34,484</u>	<u>68,391</u>	<u>19,072</u>	<u>26,586</u>	<u>1,229,846</u>

<u>\$ 59,529</u>	<u>\$ 14,950</u>	<u>\$ 34,658</u>	<u>\$ 213,124</u>	<u>\$ 19,222</u>	<u>\$ 26,668</u>	<u>\$ 1,519,911</u>
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STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
<b>REVENUES</b>						
Taxes:						
Sales	\$ 18,316	\$ 2,487	\$ 4,486	\$ -	\$ -	\$ -
Tobacco	6,635	-	8,126	238,184	-	-
Motor vehicle and fuel	106,349	32,447	2,086	-	-	-
Other	60,694	-	-	-	-	49,907
Intergovernmental	21,306	16	132,612	447	1,271	51
Licenses, fees, and permits	26,741	57,147	37,213	-	25,726	97,287
Hospital and nursing facility assessments	-	-	292,049	-	-	-
Earnings on investments	447	1,220	487	2,701	1,315	350
Sales and charges for services	16,486	-	2,786	-	690	3,508
Fines, forfeitures, and penalties	54,647	462	6,948	-	35,034	2,456
Gaming	-	-	22,670	-	-	7,251
Other	1,003	125	10,632	516	709	1,590
Total Revenues	<u>312,624</u>	<u>93,904</u>	<u>520,095</u>	<u>241,848</u>	<u>64,745</u>	<u>162,400</u>
<b>EXPENDITURES</b>						
Current:						
General government	29,852	851	3,289	622	65,363	2,234
Health and welfare	-	86,405	507,124	108,622	-	8,058
Inspection and regulation	-	1,384	-	-	11	118,499
Education	-	-	-	138,013	-	-
Protection and safety	306,647	-	-	-	-	-
Natural resources	30,085	388	-	-	-	-
Debt service:						
Principal	1,482	-	-	-	-	-
Interest and other fiscal charges	93	-	-	-	-	-
Capital outlay	16,972	152	388	-	581	415
Total Expenditures	<u>385,131</u>	<u>89,180</u>	<u>510,801</u>	<u>247,257</u>	<u>65,955</u>	<u>129,206</u>
Excess (Deficiency) of Revenues						
Over Expenditures	<u>(72,507)</u>	<u>4,724</u>	<u>9,294</u>	<u>(5,409)</u>	<u>(1,210)</u>	<u>33,194</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	96,665	3,084	16,536	7,845	1,270	2,491
Transfers out	(34,899)	(774)	(7,053)	(991)	(6,261)	(13,228)
Capital lease and installment purchase contracts	3,592	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>65,358</u>	<u>2,310</u>	<u>9,483</u>	<u>6,854</u>	<u>(4,991)</u>	<u>(10,737)</u>
Net Change in Fund Balances	<u>(7,149)</u>	<u>7,034</u>	<u>18,777</u>	<u>1,445</u>	<u>(6,201)</u>	<u>22,457</u>
Fund Balances - Beginning	<u>100,520</u>	<u>126,793</u>	<u>122,846</u>	<u>386,752</u>	<u>98,829</u>	<u>139,271</u>
Fund Balances - Ending	<u>\$ 93,371</u>	<u>\$ 133,827</u>	<u>\$ 141,623</u>	<u>\$ 388,197</u>	<u>\$ 92,628</u>	<u>\$ 161,728</u>

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ 512,947	\$ -	\$ -	\$ 538,236
-	-	-	-	-	-	252,945
992	9,848	-	200	-	-	151,922
-	-	-	-	-	-	110,601
36,727	-	2,023	1,099	-	-	195,552
41,096	1,616	8,424	3,787	7,014	-	306,051
-	-	-	-	-	-	292,049
489	143	225	61,047	177	-	68,601
3,356	-	2,112	32,163	3	-	61,104
198	-	9	-	-	7,267	107,021
6,489	-	-	46,417	-	-	82,827
1,242	79	14,048	13,250	13,057	176	56,427
<u>90,589</u>	<u>11,686</u>	<u>26,841</u>	<u>670,910</u>	<u>20,251</u>	<u>7,443</u>	<u>2,223,336</u>
-	-	13,393	-	-	6,592	122,196
-	-	-	-	-	-	710,209
-	-	-	-	-	-	119,894
-	-	34	676,164	-	-	814,211
-	-	-	-	-	-	306,647
78,022	9,720	-	-	20,677	-	138,892
1,300	-	-	-	-	-	2,782
1,516	-	-	-	-	-	1,609
7,774	1,026	211	10	-	-	27,529
<u>88,612</u>	<u>10,746</u>	<u>13,638</u>	<u>676,174</u>	<u>20,677</u>	<u>6,592</u>	<u>2,243,969</u>
1,977	940	13,203	(5,264)	(426)	851	(20,633)
10,520	-	-	6,539	380	-	145,330
(9,729)	(113)	(512)	(430)	(43)	-	(74,033)
-	-	-	-	-	-	3,592
791	(113)	(512)	6,109	337	-	74,889
2,768	827	12,691	845	(89)	851	54,256
52,951	13,393	21,793	67,546	19,161	25,735	1,175,590
<u>\$ 55,719</u>	<u>\$ 14,220</u>	<u>\$ 34,484</u>	<u>\$ 68,391</u>	<u>\$ 19,072</u>	<u>\$ 26,586</u>	<u>\$ 1,229,846</u>

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>ACCOUNTANCY, ARIZONA STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	\$ 18,901	\$ 18,901
OPERATING LUMP SUM APPROPRIATION	1,937,000	1,521,691
<b>ACUPUNCTURE BOARD OF EXAMINERS</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,726	4,726
ANNUAL LEAVE PAYOUT	13,200	13,200
OPERATING LUMP SUM APPROPRIATION	165,300	145,995
<b>ADMINISTRATION, ARIZONA DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	95,406	95,406
OPERATING LUMP SUM APPROPRIATION	1,497,700	828,859
SWEEPS	800	800
<b>AGRICULTURE, ARIZONA DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	3,129,900	1,369,678
SWEEPS	13,500	13,500
<b>AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM</b>		
ACA ADULT EXPANSION	6,078,800	6,074,782
ADMIN ADJUSTMENT ALTCS SERVICES	12,552,023	12,552,023
ADMIN ADJUSTMENT PROPOSITION 204 SERVICES	23,682,771	23,682,771
ALTCS SERVICES	77,000,000	76,307,185
CRISIS SERVICES	2,250,200	2,250,200
MEDICAID BEHAVIORAL HEALTH ADULT EXPANSION SERVICES	182,700	182,700
MEDICAID BEHAVIORAL HEALTH TRADITIONAL SERVICES	35,565,800	35,176,146
PROPOSITION 204 SERVICES	246,067,600	229,779,208
TRADITIONAL MEDICAID SERVICES	37,432,400	36,866,554
<b>ATHLETIC TRAINING, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,237	2,237
OPERATING LUMP SUM APPROPRIATION	119,100	110,612
<b>ATTORNEY GENERAL - DEPARTMENT OF LAW</b>		
ADMIN ADJUSTMENT FEDERALISM UNIT	1,262	1,262
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	46,204	46,204
ADMIN ADJUSTMENT TOBACCO ENFORCEMENT	1,169	1,169
FEDERALISM UNIT	995,600	775,445
NATIONAL MORTGAGE SETTLEMENT	19,576,672	2,344,326
OPERATING LUMP SUM APPROPRIATION	10,938,000	9,441,783
SWEEPS	67,600	67,600
TOBACCO ENFORCEMENT	731,600	148,442
VICTIMS RIGHTS	3,758,900	3,609,669
<b>AUTOMOBILE THEFT AUTHORITY</b>		
AUTOMOBILE THEFT AUTHORITY GRANTS	4,607,700	4,605,057
OPERATING LUMP SUM APPROPRIATION	637,800	621,983
REIMBURSABLE PROGRAMS	50,000	-
SWEEPS	500	500
<b>BARBERS, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,413	1,413
OPERATING LUMP SUM APPROPRIATION	370,700	302,784
SWEEPS	300	300
<b>BEHAVIORAL HEALTH EXAMINERS, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13,749	13,749
OPERATING LUMP SUM APPROPRIATION	1,759,100	1,542,029
SWEEPS	100	100
<b>BOARD OF MASSAGE THERAPY</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,174	4,174
OPERATING LUMP SUM APPROPRIATION	470,100	413,680
<b>CHILD SAFETY, DEPARTMENT OF</b>		
DCS - CASEWORKERS	207,100	-
DCS IN-HOME MITIGATION	1,459,300	642,657
<b>CHIROPRACTIC EXAMINERS, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,587	2,587
OPERATING LUMP SUM APPROPRIATION	451,100	451,076
SWEEPS	200	200

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>CONTRACTORS, REGISTRAR OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	26,551	26,551
OFFICE OF ADMINISTRATIVE HEARINGS COSTS	1,017,600	508,800
OPERATING LUMP SUM APPROPRIATION	11,147,800	8,182,336
SWEEPS	67,000	67,000
<b>CORPORATION COMMISSION</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	117,491	117,491
ANNUAL REVERSION	2,179,410	2,179,410
ANNUAL REVERSION PUBLIC ACCESS FUND	1,364,432	1,364,432
CORPORATION FILINGS, SAME DAY SERVICE	397,300	-
INVESTIGATE-PROSECUTE SECUR FRD	165,599	139,090
OPERATING LUMP SUM APPROPRIATION	25,498,400	25,030,778
UTILITY, AUDIT, STUDY, INVEST, HEAR	1,475,812	703,211
<b>CORRECTIONS, STATE DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,396,183	2,396,183
ADMIN ADJUSTMENT PRIVATE PRISON PER DIEM	8,597,422	8,597,422
CASH TRANSFER TO BUILDING RENEWAL FUND	2,500,000	2,500,000
INMATE HEALTH CARE CONTRACTED SERVICES	10,000,000	5,022,006
OPERATING LUMP SUM APPROPRIATION	7,242,600	3,085,852
PRIVATE PRISON PER DIEM	24,517,000	13,922,230
RADIO EQUIPMENT	2,800,000	2,728,042
SWEEPS	33,000	33,000
<b>COSMETOLOGY, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	44,379	44,379
OPERATING LUMP SUM APPROPRIATION	1,805,200	1,773,879
SWEEPS	4,600	4,600
<b>CRIMINAL JUSTICE COMMISSION, ARIZONA</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	14,019	14,019
ADMIN ADJUSTMENT STATE AID TO COUNTY ATTORNEYS	204,250	204,250
ADMIN ADJUSTMENT VICTIM COMPENSATION - ASSISTANCE	253,784	253,784
OPERATING LUMP SUM APPROPRIATION	1,251,100	1,080,061
STATE AID TO COUNTY ATTORNEYS	973,700	727,805
SWEEPS	4,900	4,900
VICTIM COMPENSATION - ASSISTANCE	4,220,600	3,230,382
<b>DEAF AND HARD OF HEARING, COMMISSION FOR THE</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	325,517	325,517
INTERPRETER CERTIFICATE AND LICENSURE	255,313	-
OPERATING LUMP SUM APPROPRIATION	4,309,500	3,040,189
SWEEPS	37,500	37,500
<b>DENTAL EXAMINERS, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	5,852	5,852
OPERATING LUMP SUM APPROPRIATION	1,214,500	1,092,522
SWEEPS	8,500	8,500
<b>ECONOMIC SECURITY, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT ATTORNEY GENERAL LEGAL SERVICES	193	193
ADMIN ADJUSTMENT DES OPERATING LUMP SUM	421,283	421,283
ADMIN ADJUSTMENT DOMESTIC VIOLENCE PREVENTION	25	25
ADMIN ADJUSTMENT INDEPENDENT LIVING REHABILITATION SVCS	97,475	97,475
ADMIN ADJUSTMENT JOBS	254,595	254,595
ADMIN ADJUSTMENT REHABILITATION SERVICES	204,700	204,700
ADULT SERVICES	700,000	518,963
ATTORNEY GENERAL LEGAL SERVICES	97,800	2,805
DES OPERATING LUMP SUM	4,567,500	3,883,217
DOMESTIC VIOLENCE PREVENTION	4,000,000	3,423,672
HOME AND COMMUNITY SERVICES - STATE ONLY	120,000	88,227
INDEPENDENT LIVING REHABILITATION SERVICES	1,123,400	1,062,798
JOBS	1,110,900	1,110,900
REHABILITATION SERVICES	654,700	294,110
STATE FUNDED LONG-TERM CARE SERVICES	600,000	600,000
SWEEPS	1,308,000	1,308,000

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>EDUCATION, DEPARTMENT OF</b>		
ACCOUNTABILITY-SCHOOL SAFETY - PROP 301	9,226,888	6,698,511
ACHIEVEMENT TESTING - PROP 301	14,987,758	6,258,315
ADDITIONAL SCHOOL DAYS - PROP 301	86,280,500	86,280,500
CHARACTER EDUCATION - PROP 301	290,547	241,386
FAILING SCHOOL TUTORING - PROP 301	2,937,967	2,064,199
OPERATING LUMP SUM APPROPRIATION - ADMIN	2,834,800	357,204
OPERATING LUMP SUM APPROPRIATION - ST BD	379,800	225,576
SCHOOL ACCOUNTABILITY FUND - PROP 301	89,679	89,679
SWEEPS	10,600	10,600
TEACHER CERTIFICATION	1,828,100	1,480,853
<b>ENVIRONMENTAL QUALITY, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	632,016	632,016
ADMIN ADJUSTMENT SAFE DRINKING WATER PROGRAM	11,449	11,449
AIR QUALITY PROGRAM - CONTINUING	368,486	-
AIR QUALITY PROGRAMS WQARF TRANSFERS	7,125,000	7,125,000
EMISSIONS CAP AND TRADING PROGRAM	337,158	-
EMISSIONS CONTROL - CONTRACTOR PAYMENTS	21,119,500	20,762,285
OPERATING LUMP SUM APPROPRIATION	32,782,400	21,229,002
POLITICAL SUBDIVISION ASSISTANCE	18,500	-
ROADSIDE DIESEL EMISSIONS TEST	200,000	-
SAFE DRINKING WATER PROGRAM	1,800,000	1,108,726
SWEEPS	105,900	105,900
UNDERGROUND STORAGE TANK APPEALS	7,500	-
VISIBILITY INDEX DEVELOPMENT	80,589	-
<b>FINANCIAL INSTITUTIONS, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	6,908	6,908
OPERATING LUMP SUM APPROPRIATION	1,453,000	1,428,311
REAL ESTATE APPRAISAL	815,100	538,696
<b>FUNERAL DIRECTORS AND EMBALMERS, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	7,455	7,455
OPERATING LUMP SUM APPROPRIATION	373,300	362,165
SWEEPS	100	100
<b>GAME AND FISH DEPARTMENT, ARIZONA</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,062,973	1,062,973
BLACK CANYON DAM MODIFICATIONS	121,683	32,160
BOAT SHADE CANOPIES	4,450	-
BUILDING RENEWAL	597,480	527,765
CAPITAL IMPROVEMENTS	3,867,000	748,728
DAM MAINTENANCE	487,234	94,567
GAME AND FISH FY 2016 PSPRS	1,752,000	-
OPERATING LUMP SUM APPROPRIATION	41,238,600	34,098,093
PERFORMANCE INCENTIVE PAY	1,038,300	-
PROPERTY MAINTENANCE	5,038	-
RADIO TOWER	331,359	212,128
REGIONAL KINGMAN OFFICE REMODEL	514,388	-
SWEEPS	470,700	470,700
WATERCRAFT BOAT STRUCTURES	874,900	46,074
WATERCRAFT GRANT PROGRAM	1,000,000	-
<b>GAMING, DEPARTMENT OF</b>		
ADDITIONAL OPERATING EXPENSES	800,400	372,318
CASINO OPERATION CERTIFICATION	2,081,800	1,488,596
DIVISION OF RACING - LUMP SUM	2,886,000	2,067,074
OPERATING LUMP SUM APPROPRIATION	8,263,500	7,216,472
PROBLEM GAMBLING	2,287,000	2,264,808
SWEEPS	88,000	88,000
<b>GOVERNOR, OFFICE OF THE</b>		
OPERATING LUMP SUM APPROPRIATION	192,300	-
<b>HEALTH SERVICES, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	682,283	682,283

(continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT EMERGENCY MEDICAL SERVICES LOCAL ALLOCATION	42,973	42,973
ADMIN ADJUSTMENT FOLIC ACID	12,717	12,717
ADMIN ADJUSTMENT HIGH RISK PERINATAL SERVICES	74,090	74,090
ADMIN ADJUSTMENT NEWBORN SCREENING PROGRAM	211,538	211,538
ADMIN ADJUSTMENT RENAL DENTAL CARE AND NUTRITION SUPPLEMENT	75,000	75,000
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	18,807,600	15,939,120
ALZHEIMER'S DISEASE RESEARCH	1,000,000	1,000,000
ALZHEIMER'S DISEASE RESEARCH ONE-TIME ALLOCATION	1,000,000	1,000,000
EMERGENCY MEDICAL SERVICES LOCAL ALLOCATION	442,000	442,000
FOLIC ACID	400,000	362,381
GENOMICS-BASED MEDICAL RESEARCH	2,508,750	2,000,000
HIGH RISK PERINATAL SERVICES	450,000	323,413
NEWBORN SCREENING PROGRAM	6,697,300	6,366,029
NURSING CARE SPECIAL PROJECTS	100,000	22,667
RENAL DENTAL CARE AND NUTRITION SUPPLEMENT	300,000	225,000
SWEEPS	74,600	74,600
<b>HOMEOPATHIC AND INTEGRATED MEDICINE EXAMINERS, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	304	304
OPERATING LUMP SUM APPROPRIATION	103,000	65,526
<b>HOUSING, ARIZONA DEPARTMENT OF</b>		
OPERATING LUMP SUM APPROPRIATION	318,500	318,500
<b>INDUSTRIAL COMMISSION OF ARIZONA</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	91,754	91,754
OPERATING LUMP SUM APPROPRIATION	19,881,300	18,292,205
SWEEPS	159,600	159,600
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	14,675	14,675
BUILDING RENEWAL	1,100,000	323,725
OPERATING LUMP SUM APPROPRIATION	531,500	515,979
SWEEPS	3,200	3,200
<b>LAND DEPARTMENT, STATE</b>		
NATURAL RESOURCE CONSERVATION DISTRICTS	260,600	147,500
<b>LEGISLATIVE COUNCIL</b>		
TELECOMMUNICATION FUND FOR THE DEAF	250,000	-
<b>MEDICAL EXAMINERS BOARD</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	73,809	73,809
MEDICAL BOARD LICENSURE COMPACT	50,000	-
OPERATING LUMP SUM APPROPRIATION	6,413,600	5,838,058
PERFORMANCE BASED INCENTIVE PROGRAM	180,000	149,875
SWEEPS	96,500	96,500
<b>MINE INSPECTOR, STATE</b>		
ADMIN ADJUSTMENT AGGREGATE MINED LAND RECLAMATION	1,589	1,589
AGGREGATE MINED LAND RECLAMATION	112,900	20,638
SWEEPS	1,000	1,000
<b>NATUROPATHIC PHYSICIANS MEDICAL BOARD</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	727	727
OPERATING LUMP SUM APPROPRIATION	184,200	162,317
<b>NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	25,488	25,488
OPERATING LUMP SUM APPROPRIATION	200,000	185,201
<b>NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS, BOARD OF EXAMINERS OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13,327	13,327
OPERATING LUMP SUM APPROPRIATION	445,400	370,714
<b>NURSING, STATE BOARD OF</b>		
ADMIN ADJUSTMENT CERTIFIED NURSING PROGRAM	365	365
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	16,769	16,769
CERTIFIED NURSING PROGRAM	536,700	536,700
OPERATING LUMP SUM APPROPRIATION	4,248,100	4,238,891
SWEEPS	10,500	10,500

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STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>OCCUPATIONAL THERAPY EXAMINERS, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,176	1,176
OPERATING LUMP SUM APPROPRIATION	170,700	161,213
<b>OPTICIANS, STATE BOARD OF DISPENSING</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	17,106	17,106
OPERATING LUMP SUM APPROPRIATION	140,000	119,374
<b>OPTOMETRY, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	5,516	5,516
OPERATING LUMP SUM APPROPRIATION	210,100	203,408
<b>OSTEOPATHIC EXAMINERS, ARIZONA BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	25,254	25,254
OPERATING LUMP SUM APPROPRIATION	940,500	847,584
<b>PARENTS COMMISSION ON DRUG EDUCATION AND PREVENTION, ARIZONA</b>		
PARENTS COMM ON MIDDLE AND HIGH SCHOOL PREVENTION EDUCATION	300,000	-
<b>PEST MANAGEMENT, OFFICE OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,819	2,819
<b>PHARMACY, ARIZONA STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	12,192	12,192
AZ POISON AND DRUG INFORMATION CENTER	200,000	200,000
CONTROLLED SUB PRESCRIP MONITORING PRGRM	395,795	395,795
ONE TIME FUNDING LEAVE PAYOUT	46,685	-
OPERATING LUMP SUM APPROPRIATION	2,115,200	2,071,008
SWEEPS	300	300
<b>PHYSICAL THERAPY EXAMINERS, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,071	1,071
OPERATING LUMP SUM APPROPRIATION	484,200	437,886
SWEEPS	200	200
<b>PODIATRY EXAMINERS, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	18,177	18,177
OPERATING LUMP SUM APPROPRIATION	148,400	135,524
<b>PRIVATE POSTSECONDARY EDUCATION, STATE BOARD FOR</b>		
OPERATING LUMP SUM APPROPRIATION	396,100	361,315
<b>PSYCHOLOGIST EXAMINERS, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	9,029	9,029
OPERATING LUMP SUM APPROPRIATION	475,400	428,820
SWEEPS	1,200	1,200
<b>PUBLIC SAFETY, DEPARTMENT OF</b>		
ACTIC	700,000	561,904
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	119,788	119,788
ADMIN ADJUSTMENT PUBLIC SAFETY EQUIPMENT SURCHARGE	7,121	7,121
BORDER STRIKE TASK FORCE ONE-TIME	4,000,000	4,000,000
LAW ENFORCEMENT OFFICER VIRTUAL TRAINING	2,100,000	291,499
MICROWAVE COMMUNICATION SYSTEM UPGRADE	1,990,850	725,325
MOTOR VEHICLE FUEL	393,000	295,325
OPERATING LUMP SUM APPROPRIATION	157,514,700	154,392,430
PUBLIC SAFETY EQUIPMENT	3,760,921	3,101,746
PUBLIC SAFETY EQUIPMENT SURCHARGE	2,890,000	2,783,388
SWEEPS	18,600	18,600
<b>RADIATION REGULATORY AGENCY</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	20,265	20,265
OPERATING LUMP SUM APPROPRIATION	271,600	249,314
SWEEPS	4,900	4,900
<b>RESIDENTIAL UTILITY CONSUMER OFFICE</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,139	2,139
OPERATING LUMP SUM APPROPRIATION	1,186,400	1,066,237
PROFESSIONAL WITNESSES	319,680	230,949
<b>RESPIRATORY CARE EXAMINERS, BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	7,531	7,531
OPERATING LUMP SUM APPROPRIATION	300,300	297,776
<b>REVENUE, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	320	320

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STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
NON-MAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OPERATING LUMP SUM APPROPRIATION	678,300	619,921
SWEEPS	100	100
<b>SUPREME COURT</b>		
ADMIN ADJUSTMENT CENTRALIZED SERVICE PAYMENTS	2,589	2,589
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	101,167	101,167
ADMIN ADJUSTMENT STATE AID	65,892	65,892
ADULT INTENSIVE PROBATION	1,535,200	1,020,933
ADULT STANDARD PROBATION	3,774,100	3,670,888
AUTOMATION	13,128,300	9,838,534
CENTRALIZED SERVICE PAYMENTS	449,900	-
COMMUNITY PUNISHMENT	2,310,300	1,316,251
COURT APPOINTED SPECIAL ADVOCATE	2,862,900	2,799,758
FELONY PRETRIAL INTERVENTION PROGRAM	250,000	250,000
INTERSTATE COMPACT	92,800	92,800
JUVENILE CRIME REDUCTION	3,308,000	598,084
JUVENILE STANDARD PROBATION	150,000	-
OPERATING LUMP SUM	333,000	293,525
OPERATING LUMP SUM APPROPRIATION	3,120,600	2,168,273
STATE AID	5,648,500	4,162,179
SWEEPS	750,000	750,000
<b>TECHNICAL REGISTRATION, STATE BOARD OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	10,950	10,950
OPERATING LUMP SUM APPROPRIATION	2,916,400	2,261,753
SWEEPS	3,200	3,200
<b>TREASURER, STATE</b>		
LAW ENFORCEMENT AND BOATING SAFETY DIST	2,183,800	-
<b>VETERANS' SERVICES, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	62	62
OPERATING LUMP SUM APPROPRIATION	899,200	302,725
SWEEPS	4,700	4,700
<b>VETERINARY MEDICAL EXAMINING BOARD, ARIZONA STATE</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	31,910	31,910
OPERATING LUMP SUM APPROPRIATION	651,900	502,977
SWEEPS	3,800	3,800
<b>WATER RESOURCES, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	212	212
ASSURED - ADEQUATE WATER SUPPLY ADMIN	266,300	-
OPERATING LUMP SUM APPROPRIATION	1,852,800	608,600
<b>TOTAL NON-MAJOR SPECIAL REVENUE FUNDS BUDGETARY EXPENDITURES</b>	<b>\$ 1,179,092,859</b>	<b>\$ 1,027,217,145</b>

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 LAND ENDOWMENTS FUND  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>CORRECTIONS, STATE DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	\$ 61,579	\$ 61,579
INMATE HEALTH CARE CONTRACTED SERVICES	1,500,000	1,125,000
OPERATING LUMP SUM APPROPRIATION	361,600	334,545
PRIVATE PRISON PER DIEM	979,200	979,200
SWEEPS	2,916,300	2,916,300
<b>DEAF AND BLIND, ARIZONA SCHOOLS FOR THE</b>		
ADMIN ADJUSTMENT PRESCHOOL-OUTREACH PROGRAMS	20,861	20,861
ADMIN ADJUSTMENT TUCSON CAMPUS	152,125	152,125
PHOENIX DAY SCHOOL FOR THE DEAF	5,635,535	5,633,616
PRESCHOOL-OUTREACH PROGRAMS	2,056,122	1,962,160
SWEEPS	600	600
TUCSON CAMPUS	3,986,043	3,869,335
<b>EDUCATION, DEPARTMENT OF</b>		
BASIC STATE AID ENTITLEMENT	219,804,200	219,804,200
<b>HEALTH SERVICES, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT ARIZONA STATE HOSPITAL - OPERATING	48,611	48,611
ARIZONA STATE HOSPITAL - OPERATING	880,100	738,767
SWEEPS	25,500	25,500
<b>JUVENILE CORRECTIONS, DEPARTMENT OF</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	27,198	27,198
OPERATING LUMP SUM APPROPRIATION	2,000,100	1,963,632
SWEEPS	6,000	6,000
<b>LAND DEPARTMENT, STATE</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	43,067	43,067
LEGAL SERVICES	225,000	-
OPERATING LUMP SUM APPROPRIATION	4,036,500	2,632,585
SWEEPS	47,800	47,800
<b>PIONEERS' HOME, ARIZONA</b>		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	46,910	46,910
ADMIN ADJUSTMENT PRESCRIPTION DRUGS	12,112	12,112
OPERATING LUMP SUM APPROPRIATION	5,974,600	5,886,188
PRESCRIPTION DRUGS	200,000	142,762
SWEEPS	2,000	2,000
<b>TOTAL LAND ENDOWMENTS FUNDS BUDGETARY EXPENDITURES</b>	<b>\$ 251,049,663</b>	<b>\$ 248,482,653</b>

## **NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS**

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

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

**The Department of Administration Debt Instrument 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 previous issuances.

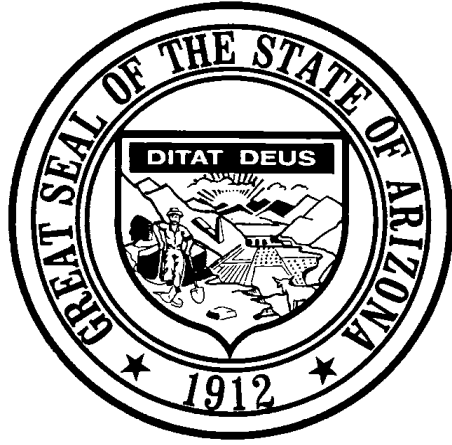
**The School Facilities Debt Instrument Fund** administers the payment of principal and interest on revenue bonds and certificates of participation issued by the State of Arizona's School Facilities Board and the retirement of previous issuances.

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR DEBT SERVICE FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	DEPARTMENT OF ADMINISTRATION DEBT INSTRUMENT	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
<b>ASSETS</b>					
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ 2,768	\$ 1,132	\$ 3,900
Due from other Funds	3,751	-	-	-	3,751
Restricted assets:					
Cash and pooled investments with State Treasurer	-	13,462	-	32,792	46,254
Cash held by trustee	-	-	7,806	26,552	34,358
Total Assets	<u>\$ 3,751</u>	<u>\$ 13,462</u>	<u>\$ 10,574</u>	<u>\$ 60,476</u>	<u>\$ 88,263</u>
<b>FUND BALANCES</b>					
Fund Balances:					
Restricted	<u>\$ 3,751</u>	<u>\$ 13,462</u>	<u>\$ 10,574</u>	<u>\$ 60,476</u>	<u>\$ 88,263</u>
Total Liabilities and Fund Balances	<u>\$ 3,751</u>	<u>\$ 13,462</u>	<u>\$ 10,574</u>	<u>\$ 60,476</u>	<u>\$ 88,263</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, 2017  
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	DEPARTMENT OF ADMINISTRATION DEBT INSTRUMENT	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
<b>REVENUES</b>					
Sales taxes	\$ -	\$ -	\$ -	\$ 64,143	\$ 64,143
Earnings on investments	-	924	2	389	1,315
Other	-	-	139	-	139
Total Revenues	-	924	141	64,532	65,597
<b>EXPENDITURES</b>					
Current:					
General government	-	-	3,632	-	3,632
Debt service:					
Principal	20,065	154,120	206,910	81,420	462,515
Interest and other fiscal charges	17,437	109,585	54,103	6,089	187,214
Total Expenditures	37,502	263,705	264,645	87,509	653,361
(Deficiency) of Revenues Over Expenditures	(37,502)	(262,781)	(264,504)	(22,977)	(587,764)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	37,502	273,873	128,462	29,304	469,141
Transfers out	-	-	(5,038)	-	(5,038)
Certificates of participation issued	-	-	119,880	-	119,880
Refunding GANs issued	-	90,410	-	-	90,410
Refunding bonds issued	-	312,900	-	-	312,900
Payment to refunded bond escrow agent	-	(389,350)	-	-	(389,350)
Payment to refunded GANs escrow agent	-	(112,128)	-	-	(112,128)
Premium on debt issued	-	100,305	17,085	-	117,390
Total Other Financing Sources (Uses)	37,502	276,010	260,389	29,304	603,205
Net Change in Fund Balances	-	13,229	(4,115)	6,327	15,441
Fund Balances - Beginning	3,751	233	14,689	54,149	72,822
Fund Balances - Ending	\$ 3,751	\$ 13,462	\$ 10,574	\$ 60,476	\$ 88,263



## **NON-MAJOR GOVERNMENTAL FUND CAPITAL PROJECTS FUND**

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

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR CAPITAL PROJECTS FUND  
JUNE 30, 2017  
(Expressed in Thousands)

DEPARTMENT OF  
TRANSPORTATION  
FINANCED

**ASSETS**

Restricted assets:	
Cash and pooled investments with State Treasurer	\$ 7,396
Total Assets	<u>\$ 7,396</u>

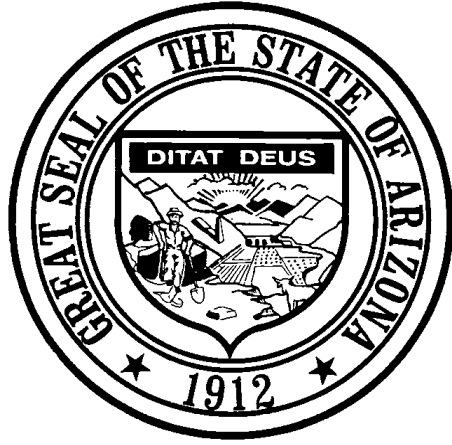
**LIABILITIES AND FUND BALANCES**

Liabilities:	
Accounts payable and other current liabilities	\$ 4,953
Total Liabilities	<u>4,953</u>
Fund Balances:	
Restricted	\$ 2,443
Total Fund Balances	<u>2,443</u>
Total Liabilities and Fund Balances	<u>\$ 7,396</u>



STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR CAPITAL PROJECTS FUND  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED
	<u>                    </u>
<b>REVENUES</b>	
Earnings on investments	\$ 712
Total Revenues	<u>712</u>
<b>EXPENDITURES</b>	
Current:	
Transportation	6,055
Intergovernmental revenue sharing	42
Capital outlay	131,456
Total Expenditures	<u>137,553</u>
(Deficiency) of Revenues Over	
Expenditures	<u>(136,841)</u>
Fund Balances - Beginning	<u>139,284</u>
Fund Balances - Ending	<u>\$ 2,443</u>



## NON-MAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

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

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
NON-MAJOR ENTERPRISE FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 496	\$ 3,287	\$ -	\$ 182
Cash with U.S. Treasury	-	-	-	-
Cash and pooled investments with State Treasurer	132	1,163	75,604	12,348
Restricted cash and pooled investments with State Treasurer	-	-	-	-
Collateral investment pool	-	-	-	-
Short-term investments	200,435	-	-	-
Receivables, net of allowances:				
Taxes	-	-	-	-
Interest	-	2	-	-
Other	-	2,464	5,372	5,412
Due from other Funds	-	-	-	-
Inventories, at cost	-	2,106	4,182	4,394
Other current assets	-	16	-	150
Total Current Assets	<u>201,063</u>	<u>9,038</u>	<u>85,158</u>	<u>22,486</u>
Noncurrent Assets:				
Investments	60,240	-	-	-
Other noncurrent assets	-	-	9,478	-
Capital assets:				
Land and other non-depreciable	-	182	938	692
Buildings, equipment, and other depreciable, net of accumulated depreciation	-	914	2,741	4,741
Total Noncurrent Assets	<u>60,240</u>	<u>1,096</u>	<u>13,157</u>	<u>5,433</u>
Total Assets	<u>261,303</u>	<u>10,134</u>	<u>98,315</u>	<u>27,919</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	-	1,092	1,020	1,370

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 212	\$ 13,791	\$ -	\$ -	\$ -	\$ 17,968
-	-	571,469	-	-	571,469
5,221	2,154	-	-	12,330	108,952
-	-	-	59,951	-	59,951
-	5,555	-	-	-	5,555
-	-	-	-	-	200,435
-	-	94,108	-	-	94,108
-	1,728	-	-	-	1,730
7	796	9,282	-	2,968	26,301
-	-	-	-	177	177
-	-	-	-	-	10,682
-	-	-	-	-	166
<u>5,440</u>	<u>24,024</u>	<u>674,859</u>	<u>59,951</u>	<u>15,475</u>	<u>1,097,494</u>
-	293,849	-	-	-	354,089
-	-	-	-	-	9,478
70	2,997	-	-	980	5,859
<u>4,851</u>	<u>2,683</u>	<u>-</u>	<u>-</u>	<u>6,475</u>	<u>22,405</u>
<u>4,921</u>	<u>299,529</u>	<u>-</u>	<u>-</u>	<u>7,455</u>	<u>391,831</u>
<u>10,361</u>	<u>323,553</u>	<u>674,859</u>	<u>59,951</u>	<u>22,930</u>	<u>1,489,325</u>
<u>756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,645</u>	<u>7,883</u>

(Continued)

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
NON-MAJOR ENTERPRISE FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ -	\$ 210	\$ 5,815	\$ 3,253
Payable for securities purchased	-	-	-	-
Accrued liabilities	-	265	-	601
Obligations under securities loan agreements	-	-	-	-
Due to U.S. Government	-	-	-	-
Due to local governments	-	-	5	-
Due to others	-	-	34,612	-
Due to other Funds	-	-	47,398	-
Unearned revenue	-	84	-	66
Current portion of accrued insurance losses	12,665	-	-	-
Current portion of other long-term liabilities	-	193	265	586
Total Current Liabilities	<u>12,665</u>	<u>752</u>	<u>88,095</u>	<u>4,506</u>
Noncurrent Liabilities:				
Accrued insurance losses	136,193	-	-	-
Net OPEB obligation	-	281	335	706
Net pension liability	-	5,727	5,751	7,592
Other long-term liabilities	-	21	-	-
Total Noncurrent Liabilities	<u>136,193</u>	<u>6,029</u>	<u>6,086</u>	<u>8,298</u>
Total Liabilities	<u>148,858</u>	<u>6,781</u>	<u>94,181</u>	<u>12,804</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	-	697	1,475	1,083
<b>NET POSITION</b>				
Net investment in capital assets	-	1,096	3,679	5,433
Restricted for:				
Unemployment Compensation	-	-	-	-
Loans and other financial assistance:				
Expendable	-	-	-	-
Other	112,445	-	-	-
Unrestricted (deficit)	-	2,652	-	9,969
Total Net Position	<u>\$ 112,445</u>	<u>\$ 3,748</u>	<u>\$ 3,679</u>	<u>\$ 15,402</u>

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 355	\$ 1,559	\$ 4	\$ -	\$ 709	\$ 11,905
-	1,839	-	-	-	1,839
104	-	35,399	-	701	37,070
-	5,555	-	-	-	5,555
-	-	34	-	-	34
-	-	-	-	-	5
-	-	12,106	-	-	46,718
-	-	972	-	-	48,370
-	-	-	-	-	150
-	19,618	-	-	-	32,283
165	-	-	-	450	1,659
<u>624</u>	<u>28,571</u>	<u>48,515</u>	<u>-</u>	<u>1,860</u>	<u>185,588</u>
-	244,275	-	-	-	380,468
128	-	-	-	1,109	2,559
3,335	-	-	-	19,417	41,822
-	-	-	-	-	21
<u>3,463</u>	<u>244,275</u>	<u>-</u>	<u>-</u>	<u>20,526</u>	<u>424,870</u>
<u>4,087</u>	<u>272,846</u>	<u>48,515</u>	<u>-</u>	<u>22,386</u>	<u>610,458</u>
418	-	-	-	2,964	6,637
4,921	5,680	-	-	7,455	28,264
-	-	626,344	-	-	626,344
-	-	-	59,951	-	59,951
-	-	-	-	-	112,445
1,691	45,027	-	-	(6,230)	53,109
<u>\$ 6,612</u>	<u>\$ 50,707</u>	<u>\$ 626,344</u>	<u>\$ 59,951</u>	<u>\$ 1,225</u>	<u>\$ 880,113</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
<b>OPERATING REVENUES</b>				
Sales and charges for services	\$ -	\$ 15,166	\$ 852,006	\$ 43,607
Unemployment assessments	-	-	-	-
Workers' compensation assessments	-	-	-	-
Intergovernmental	-	-	-	-
Fines, forfeitures, and penalties	-	-	-	-
Settlement income	3,169	-	-	-
Other	-	262	1,190	-
Total Operating Revenues	<u>3,169</u>	<u>15,428</u>	<u>853,196</u>	<u>43,607</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and benefits	14,592	6,735	632,457	31,967
Personal services	439	4,774	4,880	6,554
Contractual services	70	2,357	14,767	-
Depreciation and amortization	-	310	292	895
Insurance	-	-	33	-
Other	169	609	2,683	-
Total Operating Expenses	<u>15,270</u>	<u>14,785</u>	<u>655,112</u>	<u>39,416</u>
Operating Income (Loss)	<u>(12,101)</u>	<u>643</u>	<u>198,084</u>	<u>4,191</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Gain on sale of capital assets	-	-	-	64
Investment income	1,157	38	213	43
Other non-operating revenue	-	-	-	-
Distributions	-	-	(15,029)	-
Other non-operating expense	(302)	-	-	-
Total Non-Operating Revenues (Expenses)	<u>855</u>	<u>38</u>	<u>(14,816)</u>	<u>107</u>
Income (Loss) Before Transfers	<u>(11,246)</u>	<u>681</u>	<u>183,268</u>	<u>4,298</u>
Transfers out	-	(8)	(183,070)	(2,000)
Change in Net Position	(11,246)	673	198	2,298
Total Net Position - Beginning	<u>123,691</u>	<u>3,075</u>	<u>3,481</u>	<u>13,104</u>
Total Net Position - Ending	<u>\$ 112,445</u>	<u>\$ 3,748</u>	<u>\$ 3,679</u>	<u>\$ 15,402</u>

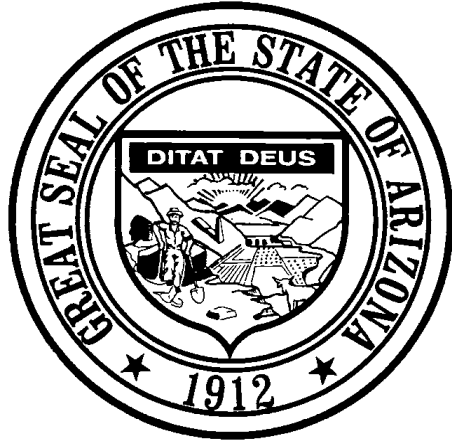


COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 12,895	\$ -	\$ -	\$ -	\$ 33,857	\$ 957,531
-	-	495,927	-	-	495,927
-	486	-	-	-	486
-	-	4,451	-	-	4,451
1	-	1,895	-	-	1,896
-	2,677	-	-	-	5,846
55	-	6	-	41	1,554
<u>12,951</u>	<u>3,163</u>	<u>502,279</u>	<u>-</u>	<u>33,898</u>	<u>1,467,691</u>
1,113	44,434	271,519	-	36	1,002,853
4,847	-	-	-	19,391	40,885
3,438	-	-	-	8,132	28,764
280	477	-	-	369	2,623
271	-	-	-	237	541
3,295	-	23	-	3,995	10,774
<u>13,244</u>	<u>44,911</u>	<u>271,542</u>	<u>-</u>	<u>32,160</u>	<u>1,086,440</u>
<u>(293)</u>	<u>(41,748)</u>	<u>230,737</u>	<u>-</u>	<u>1,738</u>	<u>381,251</u>
-	-	-	-	-	64
18	31,894	8,369	658	99	42,489
-	2,123	370	-	-	2,493
-	-	-	-	-	(15,029)
-	(3,699)	-	-	-	(4,001)
<u>18</u>	<u>30,318</u>	<u>8,739</u>	<u>658</u>	<u>99</u>	<u>26,016</u>
<u>(275)</u>	<u>(11,430)</u>	<u>239,476</u>	<u>658</u>	<u>1,837</u>	<u>407,267</u>
<u>(38)</u>	<u>(155)</u>	<u>(4,577)</u>	<u>-</u>	<u>(203)</u>	<u>(190,051)</u>
(313)	(11,585)	234,899	658	1,634	217,216
6,925	62,292	391,445	59,293	(409)	662,897
<u>\$ 6,612</u>	<u>\$ 50,707</u>	<u>\$ 626,344</u>	<u>\$ 59,951</u>	<u>\$ 1,225</u>	<u>\$ 880,113</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	ARIZONA INDUSTRIES FOR THE BLIND	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ -	\$ 14,387	\$ 387,146	\$ 43,105
Receipts from assessments	-	-	-	-
Receipts from grants and contracts	-	-	-	-
Receipts from settlement income	3,169	-	-	-
Payments to suppliers, prize winners, claimants, or insurance companies	(14,891)	(9,984)	(183,422)	(14,959)
Payments to employees	(439)	(5,802)	(5,282)	(21,925)
Other receipts	-	262	-	-
Net Cash Provided (Used) by Operating Activities	<u>(12,161)</u>	<u>(1,137)</u>	<u>198,442</u>	<u>6,221</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Distributions	-	-	(15,029)	-
Transfers to other Funds	-	(8)	(199,301)	(2,000)
Net Cash (Used) by Non-capital Financing Activities	<u>-</u>	<u>(8)</u>	<u>(214,330)</u>	<u>(2,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	-	-	94
Acquisition and construction of capital assets	-	-	(236)	(1,732)
Net Cash (Used) by Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(236)</u>	<u>(1,638)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	397,859	-	-	-
Interest and dividends from investments	855	37	200	42
Change in cash collateral received from securities lending transactions	-	-	-	-
Purchase of investments	(387,075)	-	-	-
Net Cash Provided (Used) by Investing Activities	<u>11,639</u>	<u>37</u>	<u>200</u>	<u>42</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(522)	(1,108)	(15,924)	2,625
Cash and Cash Equivalents - Beginning	1,150	5,558	91,528	9,905
Cash and Cash Equivalents - Ending	<u>\$ 628</u>	<u>\$ 4,450</u>	<u>\$ 75,604</u>	<u>\$ 12,530</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (12,101)	\$ 643	\$ 198,084	\$ 4,191
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	-	310	292	895
Provision for uncollectible accounts	-	-	-	32
Miscellaneous income (expense)	-	-	-	-
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	-	(869)	7,315	174
Decrease in due from U.S. Government	-	73	-	-
(Increase) decrease in due from other Funds	-	8	-	-
(Increase) decrease in inventories, at cost	-	(206)	661	(507)
(Increase) decrease in other assets	-	129	64	(14)
(Increase) in deferred pension outflows of resources	-	(314)	(479)	(633)
Increase (decrease) in accounts payable	-	(206)	(1,147)	1,026
Increase (decrease) in accrued liabilities	-	10	(6,454)	78
(Decrease) in due to U.S. Government	-	-	-	-
(Decrease) in due to other Funds	-	-	-	-
(Decrease) in due to others	-	-	-	-
Increase (decrease) in unearned revenue	-	9	-	-
Increase (decrease) in accrued insurance losses	(60)	-	-	-
Increase in net OPEB obligation	-	120	143	302
Increase (decrease) in net pension liability	-	(866)	(788)	173
Increase (decrease) in other liabilities	-	(118)	-	77
Increase in deferred pension inflows of resources	-	140	751	427
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,161)</u>	<u>\$ (1,137)</u>	<u>\$ 198,442</u>	<u>\$ 6,221</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>				
Increase (decrease) in fair value of investments	\$ (2,563)	\$ -	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ (2,563)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND	UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 12,884	\$ -	\$ -	\$ -	\$ 33,909	\$ 491,431
-	144	498,521	-	-	498,665
-	-	4,451	-	-	4,451
-	2,677	-	-	-	5,846
(7,899)	(14,278)	(270,808)	-	(12,500)	(528,741)
(4,674)	-	-	-	(18,019)	(56,141)
1,273	2,124	1,878	-	41	5,578
<u>1,584</u>	<u>(9,333)</u>	<u>234,042</u>	<u>-</u>	<u>3,431</u>	<u>421,089</u>
-	-	-	-	-	(15,029)
<u>(38)</u>	<u>(155)</u>	<u>(3,618)</u>	<u>-</u>	<u>(203)</u>	<u>(205,323)</u>
<u>(38)</u>	<u>(155)</u>	<u>(3,618)</u>	<u>-</u>	<u>(203)</u>	<u>(220,352)</u>
-	-	-	-	-	94
<u>(186)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51)</u>	<u>(2,205)</u>
<u>(186)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51)</u>	<u>(2,111)</u>
-	108,748	-	-	-	506,607
18	8,821	8,368	658	99	19,098
-	(22,580)	-	-	-	(22,580)
-	(116,686)	-	-	-	(503,761)
<u>18</u>	<u>(21,697)</u>	<u>8,368</u>	<u>658</u>	<u>99</u>	<u>(636)</u>
1,378	(31,185)	238,792	658	3,276	197,990
4,055	52,685	332,677	59,293	9,054	565,905
<u>\$ 5,433</u>	<u>\$ 21,500</u>	<u>\$ 571,469</u>	<u>\$ 59,951</u>	<u>\$ 12,330</u>	<u>\$ 763,895</u>
\$ (293)	\$ (41,748)	\$ 230,737	\$ -	\$ 1,738	\$ 381,251
280	477	-	-	369	2,623
-	-	-	-	-	32
1,218	(290)	-	-	-	928
(3)	(13)	3,594	-	62	10,260
-	-	-	-	-	73
-	-	-	-	(10)	(2)
-	-	-	-	-	(52)
-	-	-	-	-	179
(376)	-	-	-	(684)	(2,486)
218	(29)	-	-	(100)	(238)
(5)	-	745	-	115	(5,511)
-	-	(1)	-	-	(1)
-	(1)	-	-	-	(1)
-	-	(1,033)	-	-	(1,033)
(9)	-	-	-	-	-
-	32,271	-	-	-	32,211
55	-	-	-	475	1,095
333	-	-	-	261	(887)
24	-	-	-	(68)	(85)
142	-	-	-	1,273	2,733
<u>\$ 1,584</u>	<u>\$ (9,333)</u>	<u>\$ 234,042</u>	<u>\$ -</u>	<u>\$ 3,431</u>	<u>\$ 421,089</u>
<u>\$ -</u>	<u>\$ 21,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,119</u>
<u>\$ -</u>	<u>\$ 21,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,119</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 Automation Operations Fund** receives monies from State agencies for services related to the implementation and operation of automation programs throughout the State.

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

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

**The Other** Internal Service Funds consist of the Personnel Division Funds, the Information Technology Fund, the Special Services Fund, the Surplus Property Funds, the Legal Services Cost Allocation Fund, the Stimulus Statewide Administration Funds, and the Construction Insurance Fund.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
INTERNAL SERVICE FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>ASSETS</b>				
Current Assets:				
Cash and pooled investments with State Treasurer	\$ 77,926	\$ 3,038	\$ 152,768	\$ 1,098
Receivables, net of allowances:				
Other	-	1,832	35,083	146
Due from other Funds	-	-	-	-
Inventories, at cost	-	2,275	-	-
Other current assets	4,052	-	11,096	-
Total Current Assets	<u>81,978</u>	<u>7,145</u>	<u>198,947</u>	<u>1,244</u>
Noncurrent Assets:				
Capital assets:				
Buildings, equipment, and other depreciable, net of accumulated depreciation	6	70,340	4	149
Total Noncurrent Assets	<u>6</u>	<u>70,340</u>	<u>4</u>	<u>149</u>
Total Assets	<u>81,984</u>	<u>77,485</u>	<u>198,951</u>	<u>1,393</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Related to pensions	<u>3,542</u>	<u>2,534</u>	<u>566</u>	<u>198</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	2,627	-	119,190	738
Accrued liabilities	468	176	98	27
Due to other Funds	-	712	-	-
Current portion of accrued insurance losses	69,184	-	-	-
Current portion of long-term debt	-	-	-	-
Current portion of other long-term liabilities	620	654	163	-
Total Current Liabilities	<u>72,899</u>	<u>1,542</u>	<u>119,451</u>	<u>765</u>
Noncurrent Liabilities:				
Accrued insurance losses	372,433	-	-	-
Net OPEB obligation	570	827	151	43
Net pension liability	14,528	14,364	2,754	1,031
Long-term debt	-	-	-	-
Other long-term liabilities	-	-	-	-
Total Noncurrent Liabilities	<u>387,531</u>	<u>15,191</u>	<u>2,905</u>	<u>1,074</u>
Total Liabilities	<u>460,430</u>	<u>16,733</u>	<u>122,356</u>	<u>1,839</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Related to pensions	<u>2,036</u>	<u>2,173</u>	<u>478</u>	<u>179</u>
<b>NET POSITION</b>				
Net investment in capital assets	6	70,340	4	149
Unrestricted (deficit)	(376,946)	(9,227)	76,679	(576)
Total Net Position	<u>\$ (376,940)</u>	<u>\$ 61,113</u>	<u>\$ 76,683</u>	<u>\$ (427)</u>

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 14,810	\$ 2,825	\$ 2,296	\$ 23,911	\$ 278,672
947	-	690	282	38,980
1,663	-	11	37	1,711
-	-	30	30	2,335
-	-	6	-	15,154
<u>17,420</u>	<u>2,825</u>	<u>3,033</u>	<u>24,260</u>	<u>336,852</u>
5,313	-	10,112	397	86,321
<u>5,313</u>	<u>-</u>	<u>10,112</u>	<u>397</u>	<u>86,321</u>
<u>22,733</u>	<u>2,825</u>	<u>13,145</u>	<u>24,657</u>	<u>423,173</u>
1,554	-	123	2,748	11,265
519	-	407	710	124,191
244	-	19	439	1,471
36	-	-	25	773
-	-	-	-	69,184
889	-	-	28	917
282	11,333	26	645	13,723
<u>1,970</u>	<u>11,333</u>	<u>452</u>	<u>1,847</u>	<u>210,259</u>
-	-	-	-	372,433
370	6	24	488	2,479
8,654	-	621	13,192	55,144
1,308	-	-	41	1,349
-	148,125	-	-	148,125
<u>10,332</u>	<u>148,131</u>	<u>645</u>	<u>13,721</u>	<u>579,530</u>
<u>12,302</u>	<u>159,464</u>	<u>1,097</u>	<u>15,568</u>	<u>789,789</u>
1,501	-	108	2,157	8,632
5,313	-	10,112	397	86,321
<u>5,171</u>	<u>(156,639)</u>	<u>1,951</u>	<u>9,283</u>	<u>(450,304)</u>
<u>\$ 10,484</u>	<u>\$ (156,639)</u>	<u>\$ 12,063</u>	<u>\$ 9,680</u>	<u>\$ (363,983)</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET POSITION**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>OPERATING REVENUES</b>				
Sales and charges for services	\$ 99,806	\$ 25,635	\$ 812,756	\$ 1,423
Other	-	254	54	-
Total Operating Revenues	<u>99,806</u>	<u>25,889</u>	<u>812,810</u>	<u>1,423</u>
<b>OPERATING EXPENSES</b>				
Cost of sales and benefits	-	11,174	853,650	2
Personal services	11,692	11,620	3,389	623
Contractual services	25,926	785	1,687	657
Depreciation and amortization	27	12,802	5	80
Insurance	57,467	-	5,660	11
Other	1,185	1,027	885	306
Total Operating Expenses	<u>96,297</u>	<u>37,408</u>	<u>865,276</u>	<u>1,679</u>
Operating Income (Loss)	<u>3,509</u>	<u>(11,519)</u>	<u>(52,466)</u>	<u>(256)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Gain (loss) on sale of capital assets	-	963	-	-
Investment income	-	24	-	-
Other non-operating revenue	1	-	-	10
Other non-operating expense	(658)	-	(8,916)	-
Total Non-Operating Revenues (Expenses)	<u>(657)</u>	<u>987</u>	<u>(8,916)</u>	<u>10</u>
Income (Loss) Before Contributions and Transfers	2,852	(10,532)	(61,382)	(246)
Capital grants and contributions	-	18,394	-	-
Transfers in	-	-	-	-
Transfers out	(2,430)	-	(79,072)	(26)
Change in Net Position	422	7,862	(140,454)	(272)
Total Net Position - Beginning	<u>(377,362)</u>	<u>53,251</u>	<u>217,137</u>	<u>(155)</u>
Total Net Position - Ending	<u>\$ (376,940)</u>	<u>\$ 61,113</u>	<u>\$ 76,683</u>	<u>\$ (427)</u>



AUTOMATION OPERATIONS	RETIREE		MOTOR POOL	OTHER	TOTAL
	ACCUMULATED SICK LEAVE				
\$ 28,736	\$ 14,382	\$ 6,992	\$ 24,992	\$ 1,014,722	
1	-	2	3,364	3,675	
<u>28,737</u>	<u>14,382</u>	<u>6,994</u>	<u>28,356</u>	<u>1,018,397</u>	
10,027	17,822	3,597	-	896,272	
5,224	79	328	9,804	42,759	
1,919	5	128	4,366	35,473	
1,759	-	2,761	214	17,648	
123	-	493	1,486	65,240	
3,178	-	244	6,147	12,972	
<u>22,230</u>	<u>17,906</u>	<u>7,551</u>	<u>22,017</u>	<u>1,070,364</u>	
<u>6,507</u>	<u>(3,524)</u>	<u>(557)</u>	<u>6,339</u>	<u>(51,967)</u>	
(2)	-	261	-	1,222	
-	-	-	6	30	
9	-	-	15	35	
-	-	-	(257)	(9,831)	
<u>7</u>	<u>-</u>	<u>261</u>	<u>(236)</u>	<u>(8,544)</u>	
6,514	(3,524)	(296)	6,103	(60,511)	
2,321	-	521	-	21,236	
19	-	-	-	19	
<u>(8,193)</u>	<u>-</u>	<u>(11)</u>	<u>(2,452)</u>	<u>(92,184)</u>	
661	(3,524)	214	3,651	(131,440)	
<u>9,823</u>	<u>(153,115)</u>	<u>11,849</u>	<u>6,029</u>	<u>(232,543)</u>	
<u>\$ 10,484</u>	<u>\$ (156,639)</u>	<u>\$ 12,063</u>	<u>\$ 9,680</u>	<u>\$ (363,983)</u>	

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services / premiums	\$ 99,806	\$ 23,832	\$ 814,172	\$ 1,426
Payments to suppliers or insurance companies	(83,684)	(12,827)	(884,980)	(257)
Payments to employees	(11,816)	(12,013)	(3,019)	(771)
Payments to retirees	-	-	-	-
Other receipts	1	254	9	-
Other payments	(658)	-	(8,916)	-
Net Cash Provided (Used) by Operating Activities	<u>3,649</u>	<u>(754)</u>	<u>(82,734)</u>	<u>398</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers from other Funds	-	-	-	-
Transfers to other Funds	(2,430)	-	(79,072)	(26)
Net Cash (Used) by Non-capital Financing Activities	<u>(2,430)</u>	<u>-</u>	<u>(79,072)</u>	<u>(26)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	2,468	-	10
Acquisition and construction of capital assets	-	(42)	-	(74)
Interest paid on capital debt, installment purchase contracts, and capital leases	-	-	-	-
Principal paid on capital debt, installment purchase contracts, and capital leases	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>2,426</u>	<u>-</u>	<u>(64)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends from investments	-	23	-	-
Net Cash Provided by Investing Activities	<u>-</u>	<u>23</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,219	1,695	(161,806)	308
Cash and Cash Equivalents - Beginning	76,707	1,343	314,574	790
Cash and Cash Equivalents - Ending	<u>\$ 77,926</u>	<u>\$ 3,038</u>	<u>\$ 152,768</u>	<u>\$ 1,098</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 3,509	\$ (11,519)	\$ (52,466)	\$ (256)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	27	12,802	5	80
Miscellaneous income (expense)	(657)	-	(8,916)	-
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	-	(1,803)	(3,820)	3
Decrease in due from U.S. Government	-	-	5,192	-
(Increase) decrease in due from other Funds	-	-	-	-
(Increase) decrease in inventories, at cost	-	242	-	-
(Increase) decrease in other assets	(992)	-	(988)	-
(Increase) in deferred pension outflows of resources	(1,706)	(1,097)	(188)	(34)
Increase (decrease) in accounts payable	849	(141)	(22,111)	719
Increase (decrease) in accrued liabilities	60	(255)	11	1
Increase (decrease) in due to other Funds	-	-	-	-
Increase in accrued insurance losses	1,037	-	-	-
Increase in net OPEB obligation	244	367	64	18
Increase (decrease) in net pension liability	445	(152)	194	(207)
Increase (decrease) in other liabilities	(14)	(76)	27	-
Increase in deferred pension inflows of resources	847	878	262	74
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,649</u>	<u>\$ (754)</u>	<u>\$ (82,734)</u>	<u>\$ 398</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>				
Contribution of capital assets from other Funds	\$ -	\$ 18,394	\$ -	\$ -
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ 18,394</u>	<u>\$ -</u>	<u>\$ -</u>

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 28,552	\$ 14,382	\$ 7,178	\$ 24,755	\$ 1,014,103
(13,490)	(5)	(4,406)	(11,497)	(1,011,146)
(5,413)	(76)	(535)	(11,160)	(44,803)
-	(15,400)	-	-	(15,400)
3	-	31	3,136	3,434
(118)	-	-	-	(9,692)
<u>9,534</u>	<u>(1,099)</u>	<u>2,268</u>	<u>5,234</u>	<u>(63,504)</u>

19	-	-	-	19
(8,193)	-	(11)	(2,452)	(92,184)
<u>(8,174)</u>	<u>-</u>	<u>(11)</u>	<u>(2,452)</u>	<u>(92,165)</u>

9	-	-	15	2,502
-	-	(709)	(9)	(834)
(115)	-	(20)	(4)	(139)
<u>(862)</u>	<u>-</u>	<u>(1,442)</u>	<u>(27)</u>	<u>(2,331)</u>
<u>(968)</u>	<u>-</u>	<u>(2,171)</u>	<u>(25)</u>	<u>(802)</u>

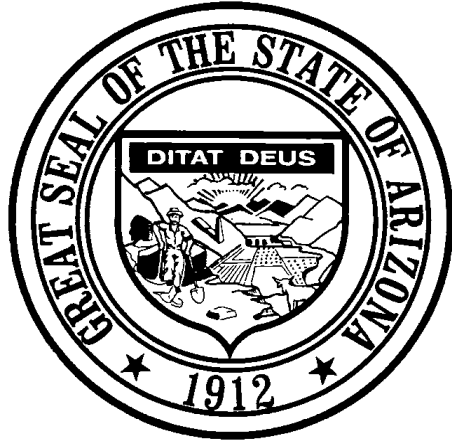
-	-	-	6	29
-	-	-	6	29

392	(1,099)	86	2,763	(156,442)
14,418	3,924	2,210	21,148	435,114
<u>\$ 14,810</u>	<u>\$ 2,825</u>	<u>\$ 2,296</u>	<u>\$ 23,911</u>	<u>\$ 278,672</u>

\$ 6,507	\$ (3,524)	\$ (557)	\$ 6,339	\$ (51,967)
1,759	-	2,761	214	17,648
(44)	-	20	(157)	(9,754)
(22)	-	184	(202)	(5,660)
-	-	-	-	5,192
(162)	-	2	(35)	(195)
-	-	(22)	4	224
1,537	-	(1)	-	(444)
(266)	-	(17)	(793)	(4,101)
112	-	88	435	(20,049)
34	-	1	50	(98)
36	-	-	(8)	28
-	-	-	-	1,037
158	3	10	209	1,073
(641)	-	(225)	(1,599)	(2,185)
(190)	2,422	(13)	(128)	2,028
716	-	37	905	3,719
<u>\$ 9,534</u>	<u>\$ (1,099)</u>	<u>\$ 2,268</u>	<u>\$ 5,234</u>	<u>\$ (63,504)</u>

\$ 2,321	\$ -	\$ 521	\$ -	\$ 21,236
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<u>\$ 2,321</u>	<u>\$ -</u>	<u>\$ 521</u>	<u>\$ -</u>	<u>\$ 21,236</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.

- **The Administrative Office of the Courts Probation Officers (AOC)** is a cost-sharing, multiple-employer pension plan within CORP that benefits county probation officers.

*Other Employee Benefit Trust Funds account for health insurance premium subsidies paid by the ASRS, PSPRS, EORP, CORP, and AOC, as well as long-term disability benefits paid by the ASRS to State employees and employees of other governmental entities participating in the plans.*

**The ASRS Health Benefit Supplement Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

**The ASRS Long-Term Disability Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for long term disability benefits to eligible participants.

**The PSPRS Health Benefit Supplement Fund** is a benefit agent multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

**The EORP Health Benefit Supplement Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

**The CORP Health Benefit Supplement Fund** is a benefit agent multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

**The AOC Health Benefit Supplement Fund** is a benefit cost-sharing, multiple-employer post-employment benefit plan that provides for health insurance premium subsidies to eligible retired and disabled members.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

	PENSION TRUST FUNDS				
	ASRS	PSPRS	EORP	CORP	AOC
<b>ASSETS</b>					
Cash	\$ 17,595	\$ 197,850	\$ 8,725	\$ 37,591	\$ 10,808
Receivables, net of allowances:					
Accrued interest and dividends	46,644	6,621	289	1,320	380
Securities sold	18,691	3,162	138	630	181
Futures contracts	18,875	-	-	-	-
Contributions	62,279	13,482	617	5,063	1,025
Court fees	-	-	775	-	-
Due from other Funds	14,407	-	-	-	-
Other	695	12,151	1,056	143	41
Total receivables	161,591	35,416	2,875	7,156	1,627
Investments, at fair value:					
Short-term investments	711,904	-	-	-	-
Fixed income securities	9,608,295	369,902	16,160	73,759	21,207
Corporate stocks	20,697,992	2,020,820	88,283	402,956	115,854
Multi-asset	1,082,577	568,330	24,828	113,326	32,582
Real assets	-	684,944	29,923	136,579	39,268
Real estate	3,249,557	628,956	27,477	125,415	36,058
Private equity	-	941,651	41,138	187,767	53,985
Private credit	-	866,256	37,844	172,733	49,663
Collateral investment pool	166,870	453,149	19,797	90,359	25,979
Other investments	538,133	534,125	23,334	106,506	30,621
Total investments	36,055,328	7,068,133	308,784	1,409,400	405,217
Prepaid benefits	236,676	-	-	-	-
Property and equipment, net of accumulated depreciation	-	3,069	215	409	118
Total Assets	36,471,190	7,304,468	320,599	1,454,556	417,770
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Related to pensions	-	1,289	58	262	75
<b>LIABILITIES</b>					
Accounts payable and other current liabilities	25,011	834	2,278	9,024	2,594
Payable for securities purchased	21,333	4,355	190	868	250
Obligation under securities loan agreements	166,870	453,149	19,797	90,359	25,979
Futures contracts payable	13,869	-	-	-	-
Due to other Funds	41,351	-	-	-	-
Net pension liability	-	5,421	244	1,101	317
Total Liabilities	268,434	463,759	22,509	101,352	29,140
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Related to pensions	-	671	30	136	39
<b>NET POSITION</b>					
Held in trust for:					
Pension benefits	36,202,756	6,841,327	298,118	1,353,330	388,666
Other post-employment benefits	-	-	-	-	-
Total Net Position	\$ 36,202,756	\$ 6,841,327	\$ 298,118	\$ 1,353,330	\$ 388,666

OTHER EMPLOYEE BENEFIT TRUST FUNDS

ASRS HEALTH BENEFIT SUPPLEMENT FUND	ASRS LONG-TERM DISABILITY FUND	PSPRS HEALTH BENEFIT SUPPLEMENT FUND	EORP HEALTH BENEFIT SUPPLEMENT FUND	CORP HEALTH BENEFIT SUPPLEMENT FUND	AOC HEALTH BENEFIT SUPPLEMENT FUND	TOTAL
\$ 767	\$ 4	\$ 8,842	\$ 637	\$ 2,963	\$ 266	\$ 286,048
2,033	-	312	23	105	9	57,736
815	-	149	11	50	4	23,831
823	-	-	-	-	-	19,698
1,128	564	90	-	19	29	84,296
-	-	-	-	-	-	775
23,604	3,434	-	-	-	-	41,445
-	5,778	-	-	3	-	19,867
<u>28,403</u>	<u>9,776</u>	<u>551</u>	<u>34</u>	<u>177</u>	<u>42</u>	<u>247,648</u>
144,553	3,267	-	-	-	-	859,724
418,824	50,722	17,451	1,258	5,849	525	10,583,952
902,221	111,365	95,336	6,871	31,952	2,867	24,476,517
47,189	-	26,812	1,933	8,986	806	1,907,369
-	-	32,313	2,329	10,830	972	937,158
141,648	20,131	29,672	2,139	9,945	892	4,271,890
-	-	44,424	3,202	14,889	1,336	1,288,392
-	-	40,867	2,946	13,697	1,229	1,185,235
7,274	-	21,378	1,541	7,165	643	794,155
23,457	1,663	25,198	1,816	8,445	758	1,294,056
<u>1,685,166</u>	<u>187,148</u>	<u>333,451</u>	<u>24,035</u>	<u>111,758</u>	<u>10,028</u>	<u>47,598,448</u>
6,607	-	-	-	-	-	243,283
-	-	-	-	-	-	3,811
<u>1,720,943</u>	<u>196,928</u>	<u>342,844</u>	<u>24,706</u>	<u>114,898</u>	<u>10,336</u>	<u>48,379,238</u>
-	-	-	-	-	-	1,684
19,483	230	-	-	-	-	59,454
930	-	205	15	69	6	28,221
7,274	-	21,378	1,541	7,165	643	794,155
604	-	-	-	-	-	14,473
94	-	-	-	-	-	41,445
-	-	-	-	-	-	7,083
<u>28,385</u>	<u>230</u>	<u>21,583</u>	<u>1,556</u>	<u>7,234</u>	<u>649</u>	<u>944,831</u>
-	-	-	-	-	-	876
-	-	-	-	-	-	45,084,197
<u>1,692,558</u>	<u>196,698</u>	<u>321,261</u>	<u>23,150</u>	<u>107,664</u>	<u>9,687</u>	<u>2,351,018</u>
<u>\$ 1,692,558</u>	<u>\$ 196,698</u>	<u>\$ 321,261</u>	<u>\$ 23,150</u>	<u>\$ 107,664</u>	<u>\$ 9,687</u>	<u>\$ 47,435,215</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

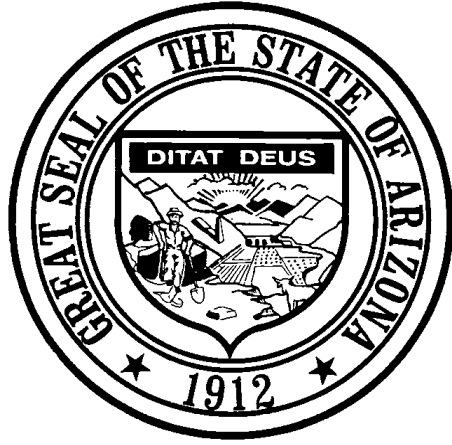
PENSION TRUST FUNDS

	ASRS	PSPRS	EORP	CORP	AOC
<b>ADDITIONS:</b>					
Member contributions	\$ 1,079,257	\$ 167,118	\$ 6,827	\$ 42,652	\$ 9,392
Employer contributions	1,053,198	634,457	15,444	92,650	22,484
Non-employer entity contributions	-	17,420	5,000	-	-
Member purchase of service credit	14,109	15,861	1,310	805	138
Court fees	-	-	8,647	-	-
Investment income:					
Net increase in fair value of investments	4,199,730	674,708	30,460	133,505	38,053
Interest income	124,957	110	8	20	6
Dividends	244,085	46,549	2,077	9,218	2,627
Other investment income	32,998	44,300	1,987	8,762	2,497
Securities lending income	5,163	3,691	164	731	208
Total investment income	4,606,933	769,358	34,696	152,236	43,391
Less investment expenses:					
Investment activity expenses	199,540	40,509	1,815	8,033	2,290
Securities lending expenses	451	984	44	195	56
Net investment income	4,406,942	727,865	32,837	144,008	41,045
Other additions	540	743	69	790	98
Total Additions	6,554,046	1,563,464	70,134	280,905	73,157
<b>DEDUCTIONS:</b>					
Retirement, disability, and survivor benefits	2,931,860	740,192	60,453	109,513	24,647
Health insurance subsidy	-	-	-	-	-
Refunds to withdrawing members, including interest	249,547	17,580	264	26,093	1,640
Administrative expense	27,895	6,460	274	1,278	367
Other deductions	1,779	382	20	787	14
Total Deductions	3,211,081	764,614	61,011	137,671	26,668
Change in net position restricted for:					
Pension benefits	3,342,965	798,850	9,123	143,234	46,489
Other post-employment benefits	-	-	-	-	-
Net Position - Beginning	32,859,791	6,042,477	288,995	1,210,096	342,177
Net Position - Ending	\$ 36,202,756	\$ 6,841,327	\$ 298,118	\$ 1,353,330	\$ 388,666



OTHER EMPLOYEE BENEFIT TRUST FUNDS

ASRS HEALTH BENEFIT SUPPLEMENT FUND	ASRS LONG-TERM DISABILITY FUND	PSPRS HEALTH BENEFIT SUPPLEMENT FUND	EORP HEALTH BENEFIT SUPPLEMENT FUND	CORP HEALTH BENEFIT SUPPLEMENT FUND	AOC HEALTH BENEFIT SUPPLEMENT FUND	TOTAL
\$ -	\$ 13,342	\$ -	\$ -	\$ -	\$ -	\$ 1,318,588
53,914	13,606	4,249	-	467	929	1,891,398
-	-	-	-	-	-	22,420
-	-	-	-	-	-	32,223
-	-	-	-	-	-	8,647
182,577	22,162	32,061	2,365	10,780	931	5,327,332
5,427	15	5	1	2	-	130,551
10,608	1	2,212	161	744	64	318,346
1,434	26	2,104	154	708	61	95,031
225	-	175	13	59	5	10,434
200,271	22,204	36,557	2,694	12,293	1,061	5,881,694
8,660	183	1,925	141	649	56	263,801
20	-	47	3	16	1	1,817
191,591	22,021	34,585	2,550	11,628	1,004	5,616,076
-	-	-	-	-	-	2,240
245,505	48,969	38,834	2,550	12,095	1,933	8,891,592
-	56,525	-	-	-	-	3,923,190
95,720	-	16,359	1,043	3,548	439	117,109
-	-	-	-	-	-	295,124
1,294	1,782	306	24	102	9	39,791
-	358	-	-	-	-	3,340
97,014	58,665	16,665	1,067	3,650	448	4,378,554
-	-	-	-	-	-	4,340,661
148,491	(9,696)	22,169	1,483	8,445	1,485	172,377
1,544,067	206,394	299,092	21,667	99,219	8,202	42,922,177
\$ 1,692,558	\$ 196,698	\$ 321,261	\$ 23,150	\$ 107,664	\$ 9,687	\$ 47,435,215



## INVESTMENT TRUST FUNDS

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

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

**Local Government Investment Pool** is an Investment Trust Account composed of corporate debt, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

**Local Government Investment Pool – FF&C** is an Investment Trust Account composed of corporate notes, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

**Local Government Investment Pool – Medium-Term** is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities.

**Local Government Investment Pool – Medium-Term FF&C** is an Investment Trust Account for participants who want to invest their monies for a longer time period composed of corporate notes, money market mutual funds, certificates of deposit, repurchase agreements, and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

**Lehman Brothers Pool** is an Investment Trust Account composed of the Local Government Investment Pool's share of the Lehman Brothers bond value that was transferred to this pool due to Lehman Brothers filing for Chapter 11 bankruptcy. The transfer was made to provide for the decline in fair value of the Lehman Brothers securities held by the Local Government Investment Pool.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
INVESTMENT TRUST FUNDS  
JUNE 30, 2017  
(Expressed in Thousands)

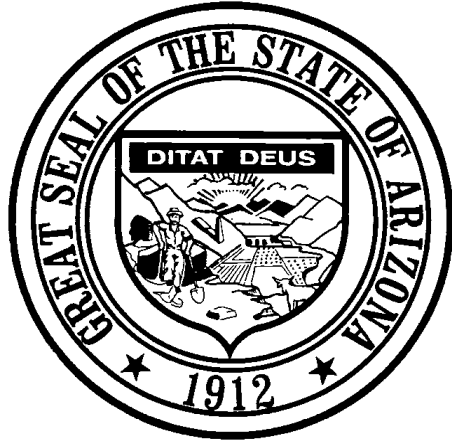
	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL - FF&C	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM FF&C
<b>ASSETS</b>					
Cash and pooled investments with State Treasurer	\$ -	\$ 1,167	\$ -	\$ 983	\$ -
Receivables, net of allowances: Accrued interest and dividends	885	192	30	865	235
Investments, at fair value:					
Fixed income securities	365,768	1,115,505	1,322,570	326,612	136,595
Collateral investment pool	93	-	-	571	-
Total investments	<u>365,861</u>	<u>1,115,505</u>	<u>1,322,570</u>	<u>327,183</u>	<u>136,595</u>
Total Assets	<u>366,746</u>	<u>1,116,864</u>	<u>1,322,600</u>	<u>329,031</u>	<u>136,830</u>
<b>LIABILITIES</b>					
Payable for securities purchased	-	-	-	4,649	-
Management fee payable	16	66	62	15	6
Obligations under securities loan agreements	93	-	-	571	-
Total Liabilities	<u>109</u>	<u>66</u>	<u>62</u>	<u>5,235</u>	<u>6</u>
<b>NET POSITION</b>					
Held in trust for pool participants	<u>\$ 366,637</u>	<u>\$ 1,116,798</u>	<u>\$ 1,322,538</u>	<u>\$ 323,796</u>	<u>\$ 136,824</u>
Net position consist of:					
Participant shares outstanding	366,079	1,116,798	1,322,538	313,222	136,034
Participants' net position value (net position/shares outstanding)	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.03	\$ 1.01

LEHMAN BROTHERS	
<u>POOL</u>	<u>TOTAL</u>
\$ -	\$ 2,150
-	2,207
1,769	3,268,819
-	664
<u>1,769</u>	<u>3,269,483</u>
<u>1,769</u>	<u>3,273,840</u>
-	4,649
-	165
-	664
-	<u>5,478</u>
<u>\$ 1,769</u>	<u>\$ 3,268,362</u>
19,301	3,273,972
\$ 0.09	

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL - FF&C	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM	LOCAL GOVERNMENT INVESTMENT POOL - MEDIUM-TERM FF&C
<b>ADDITIONS:</b>					
Investment income:					
Net increase (decrease) in fair value of investments	\$ (2,213)	\$ (6)	\$ (310)	\$ (1,944)	\$ (1,603)
Interest income	5,444	8,487	6,389	4,288	1,970
Securities lending income	11	4	121	11	7
Total investment income	<u>3,242</u>	<u>8,485</u>	<u>6,200</u>	<u>2,355</u>	<u>374</u>
Less: Investment activity expenses					
Investment activity expenses	190	700	634	151	73
Securities lending expenses	11	1	75	10	6
Net investment income	<u>3,041</u>	<u>7,784</u>	<u>5,491</u>	<u>2,194</u>	<u>295</u>
Capital share and individual account transactions:					
Shares sold	78,125	2,795,054	1,864,591	79,302	13,647
Reinvested interest income	5,090	7,796	5,758	3,771	1,531
Shares redeemed	(57,555)	(2,733,603)	(1,751,966)	(8,471)	(11,520)
Transfers in (out)	-	878	-	-	-
Net capital share and individual account transactions	<u>25,660</u>	<u>70,125</u>	<u>118,383</u>	<u>74,602</u>	<u>3,658</u>
Total Additions	<u>28,701</u>	<u>77,909</u>	<u>123,874</u>	<u>76,796</u>	<u>3,953</u>
<b>DEDUCTIONS:</b>					
Dividends to investors	<u>3,041</u>	<u>7,784</u>	<u>5,491</u>	<u>2,194</u>	<u>295</u>
Total Deductions	<u>3,041</u>	<u>7,784</u>	<u>5,491</u>	<u>2,194</u>	<u>295</u>
Change in net position held in trust for pool participants	25,660	70,125	118,383	74,602	3,658
Net Position - Beginning	<u>340,977</u>	<u>1,046,673</u>	<u>1,204,155</u>	<u>249,194</u>	<u>133,166</u>
Net Position - Ending	<u>\$ 366,637</u>	<u>\$ 1,116,798</u>	<u>\$ 1,322,538</u>	<u>\$ 323,796</u>	<u>\$ 136,824</u>

LEHMAN BROTHERS		
POOL		TOTAL
\$ 558	\$	(5,518)
-		26,578
-		154
<u>558</u>		<u>21,214</u>
-		1,748
-		103
<u>558</u>		<u>19,363</u>
-		4,830,719
-		23,946
-		(4,563,115)
<u>(878)</u>		<u>-</u>
<u>(878)</u>		<u>291,550</u>
<u>(320)</u>		<u>310,913</u>
-		18,805
-		18,805
(320)		292,108
<u>2,089</u>		<u>2,976,254</u>
<u>\$ 1,769</u>	<u>\$</u>	<u>3,268,362</u>





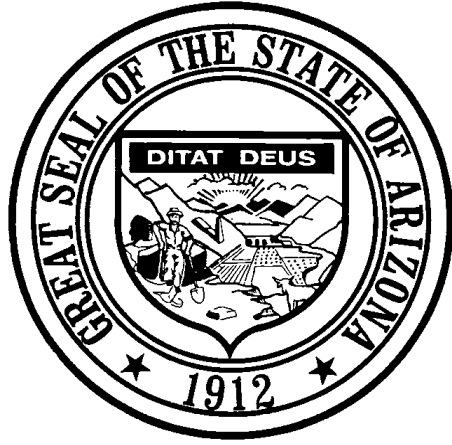
## AGENCY FUNDS

*Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations.*

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

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

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



STATE OF ARIZONA  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 JUNE 30, 2017  
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ -	\$ 3	\$ 10,749	\$ 10,752
Cash and pooled investments with State Treasurer	-	14,200	64,237	78,437
Receivables, net of allowances:				
Accrued interest	-	-	2	2
Other	-	-	7	7
Due from others	-	-	81,500	81,500
Custodial securities in safekeeping	558,176	-	6,230	564,406
<b>Total Assets</b>	<u>\$ 558,176</u>	<u>\$ 14,203</u>	<u>\$ 162,725</u>	<u>\$ 735,104</u>
<b>LIABILITIES</b>				
Due to local governments	\$ -	\$ 267	\$ 10,208	\$ 10,475
Due to others	558,176	13,936	152,517	724,629
<b>Total Liabilities</b>	<u>\$ 558,176</u>	<u>\$ 14,203</u>	<u>\$ 162,725</u>	<u>\$ 735,104</u>

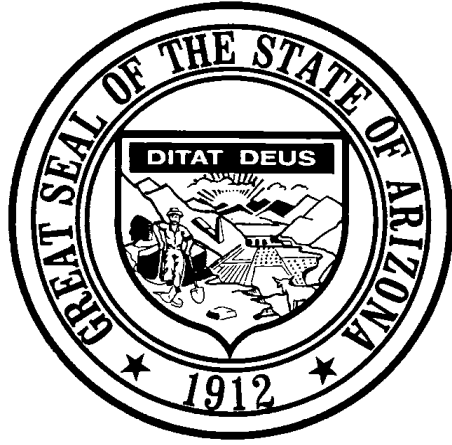
STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	BALANCE JULY 1, 2016	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2017
<b>TREASURER CUSTODIAL SECURITIES FUND</b>				
Assets:				
Custodial securities in safekeeping	\$ 776,127	\$ 348,010	\$ 565,961	\$ 558,176
Total Assets	<u>\$ 776,127</u>	<u>\$ 348,010</u>	<u>\$ 565,961</u>	<u>\$ 558,176</u>
Liabilities:				
Due to others	\$ 776,127	\$ 348,010	\$ 565,961	\$ 558,176
Total Liabilities	<u>\$ 776,127</u>	<u>\$ 348,010</u>	<u>\$ 565,961</u>	<u>\$ 558,176</u>
<b>OTHER TREASURER FUNDS</b>				
Assets:				
Cash	\$ -	\$ 3	\$ -	\$ 3
Cash and pooled investments with State Treasurer	12,179	137,876	135,855	14,200
Total Assets	<u>\$ 12,179</u>	<u>\$ 137,879</u>	<u>\$ 135,855</u>	<u>\$ 14,203</u>
Liabilities:				
Due to local governments	\$ 230	\$ 123,747	\$ 123,710	\$ 267
Due to others	11,949	45,319	43,332	13,936
Total Liabilities	<u>\$ 12,179</u>	<u>\$ 169,066</u>	<u>\$ 167,042</u>	<u>\$ 14,203</u>
<b>OTHER FUNDS</b>				
Assets:				
Cash	\$ 25,166	\$ 745,384	\$ 759,801	\$ 10,749
Cash and pooled investments with State Treasurer	52,612	175,555	163,930	64,237
Receivables, net of allowances:				
Accrued interest	1	1	-	2
Other	2	124	119	7
Short-term investments	1,343	-	1,343	-
Due from others	82,032	81,500	82,032	81,500
Custodial securities in safekeeping	6,333	6,230	6,333	6,230
Other assets	1,508	-	1,508	-
Total Assets	<u>\$ 168,997</u>	<u>\$ 1,008,794</u>	<u>\$ 1,015,066</u>	<u>\$ 162,725</u>
Liabilities:				
Due to local governments	\$ 10,154	\$ 101,666	\$ 101,612	\$ 10,208
Due to others	158,843	1,085,067	1,091,393	152,517
Total Liabilities	<u>\$ 168,997</u>	<u>\$ 1,186,733</u>	<u>\$ 1,193,005</u>	<u>\$ 162,725</u>

(Continued)

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (Expressed in Thousands)

	BALANCE JULY 1, 2016	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2017
<b>COMBINED TOTAL ALL AGENCY FUNDS</b>				
Assets:				
Cash	\$ 25,166	\$ 745,387	\$ 759,801	\$ 10,752
Cash and pooled investments with State Treasurer	64,791	313,431	299,785	78,437
Receivables, net of allowances:				
Accrued interest	1	1	-	2
Other	2	124	119	7
Short-term investments	1,343	-	1,343	-
Due from others	82,032	81,500	82,032	81,500
Custodial securities in safekeeping	782,460	354,240	572,294	564,406
Other assets	1,508	-	1,508	-
Total Assets	<u>\$ 957,303</u>	<u>\$ 1,494,683</u>	<u>\$ 1,716,882</u>	<u>\$ 735,104</u>
Liabilities:				
Due to local governments	\$ 10,384	\$ 225,413	\$ 225,322	\$ 10,475
Due to others	946,919	1,478,396	1,700,686	724,629
Total Liabilities	<u>\$ 957,303</u>	<u>\$ 1,703,809</u>	<u>\$ 1,926,008</u>	<u>\$ 735,104</u>



## **NON-MAJOR COMPONENT UNITS**

*Component units are legally separate entities for which the State is considered to be financially accountable. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.*

**The Arizona Power Authority** purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws.

**The Rio Nuevo Multipurpose Facilities District (Rio Nuevo)** utilizes tax incremental financing to help develop multipurpose facilities in the downtown Tucson area.

**The Arizona Public School Credit Enhancement** program assists achievement district schools in obtaining more favorable financing by guaranteeing the payment of principal and interest on guaranteed financings issued by or on behalf of achievement district schools.

**The Arizona Commerce Authority** is charged with the following responsibilities: job creation and expansion of capital investment through business attraction, expansion and retention, including business incubation and entrepreneurship; creation, monitoring, and execution of a comprehensive economic and workforce strategy; management and administration of economic development and workforce programs; providing statewide marketing leadership; utilization of all means necessary, prudent and practical to integrate private sector-based innovation, flexibility, focus and responsiveness; and advancement of public policy to meet the State's economic development objectives.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET POSITION**  
NON-MAJOR COMPONENT UNITS  
JUNE 30, 2017  
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	ARIZONA PUBLIC SCHOOL CREDIT ENHANCEMENT	ARIZONA COMMERCE AUTHORITY	TOTAL
<b>ASSETS</b>					
Current Assets:					
Cash	\$ -	\$ 9,212	\$ -	\$ 19,112	\$ 28,324
Cash and pooled investments with State Treasurer	6,205	-	103,798	69,047	179,050
Restricted investments held by trustee	7,847	-	-	-	7,847
Receivables, net of allowances:					
Loans and notes	-	-	-	1,341	1,341
Other	6,097	803	-	402	7,302
Due from primary government	-	3,150	-	-	3,150
Other current assets	545	46	-	9	600
Total Current Assets	20,694	13,211	103,798	89,911	227,614
Noncurrent Assets:					
Restricted assets:					
Cash held by trustee	-	16,927	-	-	16,927
Investments held by trustee	1,641	-	-	-	1,641
Loans and notes receivable, net of allowances	-	8,903	-	5,348	14,251
Other noncurrent assets	635	-	-	-	635
Capital assets:					
Land and other non-depreciable	-	19,140	-	-	19,140
Buildings, equipment, and other depreciable, net of accumulated depreciation	107	33,352	-	634	34,093
Total Noncurrent Assets	2,383	78,322	-	5,982	86,687
Total Assets	23,077	91,533	103,798	95,893	314,301
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Related to pensions	134	-	-	-	134
Loss on debt refundings	-	6,775	-	-	6,775
Future benefits and advances	20,648	-	-	-	20,648
Total Deferred Outflows of Resources	20,782	6,775	-	-	27,557
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	5,629	8,274	-	247	14,150
Accrued liabilities	381	37	-	233	651
Unearned revenue	-	-	-	975	975
Current portion of long-term debt	6,220	7,310	-	-	13,530
Total Current Liabilities	12,230	15,621	-	1,455	29,306
Noncurrent Liabilities:					
Net pension liability	741	-	-	-	741
Long-term debt	26,568	63,700	80,000	-	170,268
Total Noncurrent Liabilities	27,309	63,700	80,000	-	171,009
Total Liabilities	39,539	79,321	80,000	1,455	200,315
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Related to pensions	277	-	-	-	277
<b>NET POSITION</b>					
Net investment in capital assets	107	48,045	-	634	48,786
Restricted for:					
Debt service	8,286	8,924	-	-	17,210
Loans and other financial assistance	-	-	-	20,877	20,877
Other	-	-	-	15,085	15,085
Unrestricted (deficit)	(4,350)	(37,982)	23,798	57,842	39,308
Total Net Position	\$ 4,043	\$ 18,987	\$ 23,798	\$ 94,438	\$ 141,266



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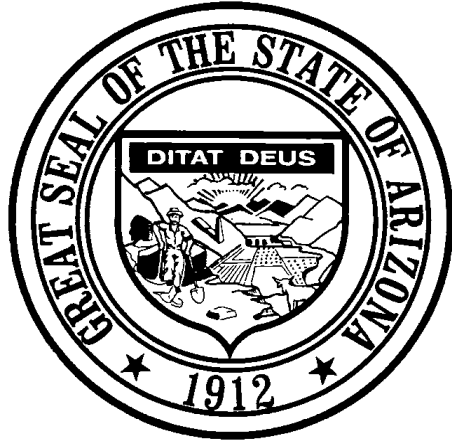
STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
NON-MAJOR COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Arizona Power Authority	\$ 32,263	\$ 33,377	\$ -
Rio Nuevo	10,080	1,401	-
Arizona Public School Credit Enhancement	-	-	-
Arizona Commerce Authority	25,060	1,346	1,416
Total	<u>\$ 67,403</u>	<u>\$ 36,124</u>	<u>\$ 1,416</u>

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

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

ARIZONA POWER AUTHORITY	RIO NUEVO	ARIZONA PUBLIC SCHOOL CREDIT ENHANCEMENT	ARIZONA COMMERCE AUTHORITY	TOTAL
\$ 1,114	\$ -	\$ -	\$ -	\$ 1,114
-	(8,679)	-	-	(8,679)
-	-	-	-	-
-	-	-	(22,298)	(22,298)
-	-	-	1,145	1,145
52	45	(102)	1,144	1,139
-	-	-	224	224
-	12,065	23,900	25,553	61,518
-	193	-	634	827
1,166	3,624	23,798	6,402	34,990
2,877	15,363	-	88,036	106,276
<u>\$ 4,043</u>	<u>\$ 18,987</u>	<u>\$ 23,798</u>	<u>\$ 94,438</u>	<u>\$ 141,266</u>



## **NON-MAJOR UNIVERSITIES – AFFILIATED COMPONENT UNITS**

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

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

**Sun Angel Foundation** receives funds primarily through donations, and contributes funds to the ASU in support of various athletic programs.

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

**The Arizona State University Alumni Association** receives funds primarily through donations, dues, and affinity partners, which are used to promote the welfare of the ASU and its alumni.

**The Arizona State University Preparatory Academy, Inc.** prepares Arizona K-12 students for success with a university-embedded academic program that empowers them to complete college, compete globally, and contribute to their communities.

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

**The University of Arizona Campus Research Corporation** was established to assist the U of A in the acquisition, improvement, and operation of the U of A Science and Technology Park and related properties.

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

**The University of Arizona Eller Executive Education** was established to advance the missions of the Eller College of Management and the U of A through noncredit, non-degree programs for business, government, and nonprofit leaders.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FINANCIAL POSITION**  
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2017  
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
<b>ASSETS</b>				
Cash and cash equivalent investments	\$ 2,391	\$ 7,728	\$ 2,856	\$ 1,323
Receivables:				
Pledges receivable	8,773	36,534	-	7
Other receivables	219	526	29,982	141
Total receivables	<u>8,992</u>	<u>37,060</u>	<u>29,982</u>	<u>148</u>
Investments:				
Investments in securities	169,303	-	-	16,786
Other investments	13,857	-	-	-
Total investments	<u>183,160</u>	<u>-</u>	<u>-</u>	<u>16,786</u>
Net direct financing leases	4,889	-	-	-
Property and equipment, net of accumulated depreciation	-	9	5,955	-
Other assets	95	176	2,274	66
Total Assets	<u>199,527</u>	<u>44,973</u>	<u>41,067</u>	<u>18,323</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	187	222	170	69
Liability under endowment trust agreements	31,712	-	-	-
Long-term debt	-	-	4,145	-
Deferred revenue	5,537	-	12,951	8
Other liabilities	4,583	-	1,792	13
Total Liabilities	<u>42,019</u>	<u>222</u>	<u>19,058</u>	<u>90</u>
<b>NET ASSETS</b>				
Permanently restricted	78,031	-	-	-
Temporarily restricted	69,074	43,186	-	236
Unrestricted	10,403	1,565	22,009	17,997
Total Net Assets	<u>\$ 157,508</u>	<u>\$ 44,751</u>	<u>\$ 22,009</u>	<u>\$ 18,233</u>

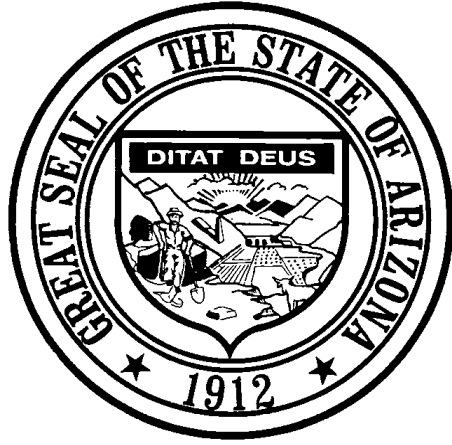
ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ 4,524	\$ 313	\$ 5,918	\$ 7,785	\$ 144	\$ 32,982
5,927	570	-	35	-	51,846
550	92	1,524	2,141	159	35,334
6,477	662	1,524	2,176	159	87,180
-	11,518	-	437	-	198,044
-	169	-	373	-	14,399
-	11,687	-	810	-	212,443
-	-	-	-	-	4,889
1,423	-	24,485	102	-	31,974
71	7	6,848	36	-	9,573
12,495	12,669	38,775	10,909	303	379,041
1,539	23	2,079	207	40	4,536
-	-	-	-	-	31,712
-	-	6,015	9	-	10,169
66	-	2,961	3,760	135	25,418
-	-	313	-	-	6,701
1,605	23	11,368	3,976	175	78,536
-	5,604	-	-	-	83,635
8,188	3,907	-	-	-	124,591
2,702	3,135	27,407	6,933	128	92,279
\$ 10,890	\$ 12,646	\$ 27,407	\$ 6,933	\$ 128	\$ 300,505

STATE OF ARIZONA  
**COMBINING STATEMENT OF ACTIVITIES**  
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION
<b>REVENUES</b>				
Contributions	\$ 14,373	\$ 17,065	\$ -	\$ 2,623
Rental revenue	-	-	10,235	-
Sales and services	-	217	-	2,076
Net investment income	20,187	34	1	1,897
Grants and aid	-	-	-	-
Other revenues	4,175	390	106	282
Total Revenues	<u>38,735</u>	<u>17,706</u>	<u>10,342</u>	<u>6,878</u>
<b>EXPENSES</b>				
Program services:				
Payments to Universities	-	10,673	2,792	-
Leasing related expenses	-	-	-	-
Payments on behalf of Universities	-	-	-	-
Other program services	7,983	-	-	-
Management and general expenses	548	1,051	1,128	5,171
Fundraising expenses	4,341	-	-	-
Interest	-	-	246	-
Depreciation and amortization	213	-	359	-
Other expenses	-	1,466	150	288
Total Expenses	<u>13,085</u>	<u>13,190</u>	<u>4,675</u>	<u>5,459</u>
Increase (decrease) in Net Assets	25,650	4,516	5,667	1,419
Net Assets - Beginning, as restated	<u>131,858</u>	<u>40,235</u>	<u>16,342</u>	<u>16,814</u>
Net Assets - Ending	<u>\$ 157,508</u>	<u>\$ 44,751</u>	<u>\$ 22,009</u>	<u>\$ 18,233</u>



ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION	UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ 2,699	\$ 1,130	\$ -	\$ 204	\$ -	\$ 38,094
-	-	15,484	-	-	25,719
1,403	-	-	850	1,271	5,817
-	1,189	11	625	-	23,944
17,417	-	-	-	-	17,417
104	478	131	2,540	-	8,206
<u>21,623</u>	<u>2,797</u>	<u>15,626</u>	<u>4,219</u>	<u>1,271</u>	<u>119,197</u>
-	-	-	-	151	13,616
-	-	9,298	-	-	9,298
-	1,562	-	2,727	751	5,040
-	-	-	-	-	7,983
24,712	170	1,454	799	332	35,365
-	126	-	247	-	4,714
-	-	-	-	-	246
234	-	-	-	-	806
-	-	-	-	-	1,904
<u>24,946</u>	<u>1,858</u>	<u>10,752</u>	<u>3,773</u>	<u>1,234</u>	<u>78,972</u>
(3,323)	939	4,874	446	37	40,225
<u>14,213</u>	<u>11,707</u>	<u>22,533</u>	<u>6,487</u>	<u>91</u>	<u>260,280</u>
<u>\$ 10,890</u>	<u>\$ 12,646</u>	<u>\$ 27,407</u>	<u>\$ 6,933</u>	<u>\$ 128</u>	<u>\$ 300,505</u>



# STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)



## STATISTICAL SECTION

This part of the State of Arizona's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the State's overall financial health.

**Financial Trends** – *Schedules 1 through 4* contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.

**Revenue Capacity** – *Schedules 5 through 9* contain information to help the reader assess the State's most significant own-source revenues, the sales tax, and personal income tax.

**Debt Capacity** – *Schedules 10 through 21* present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.

**Demographic and Economic Information** – *Schedules 22 and 23* offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place and to help make comparisons over time and among other governments.

**Operating Information** – *Schedules 24 through 26* contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.

STATE OF ARIZONA  
SCHEDULE 1  
**NET POSITION BY COMPONENT (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	Fiscal Year				
	2017	2016, as restated	2015, as restated	2014, as restated	2013, as restated
<b>GOVERNMENTAL ACTIVITIES:</b>					
Net investment in capital assets (5,8)	\$ 20,583,563	\$ 19,722,730	\$ 18,790,889	\$ 18,053,540	\$ 17,410,055
Restricted (3)	7,424,033	6,856,271	7,170,289	6,829,299	6,116,083
Unrestricted (6,8)	(5,341,848)	(5,205,689)	(5,685,921)	(5,841,106)	(2,527,441)
<b>Total Governmental Activities Net Position</b>	<b>\$ 22,665,748</b>	<b>\$ 21,373,312</b>	<b>\$ 20,275,257</b>	<b>\$ 19,041,733</b>	<b>\$ 20,998,697</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>					
Net investment in capital assets (4,8,9)	\$ 1,879,901	\$ 1,761,694	\$ 1,642,507	\$ 1,581,436	\$ 1,526,777
Restricted (7)	1,445,218	1,191,605	895,616	723,590	531,972
Unrestricted (2,4,6,8,9,10)	369,694	288,164	215,120	(51,586)	1,049,391
<b>Total Business-type Activities Net Position</b>	<b>\$ 3,694,813</b>	<b>\$ 3,241,463</b>	<b>\$ 2,753,243</b>	<b>\$ 2,253,440</b>	<b>\$ 3,108,140</b>
<b>PRIMARY GOVERNMENT:</b>					
Net investment in capital assets (4,5,9)	\$ 22,463,464	\$ 21,484,424	\$ 20,433,396	\$ 19,634,976	\$ 18,936,832
Restricted (3,7)	8,869,251	8,047,876	8,065,905	7,552,889	6,648,055
Unrestricted (2,4,6,8,9,10)	(4,972,154)	(4,917,525)	(5,470,801)	(5,892,692)	(1,478,050)
<b>Total Primary Government Net Position</b>	<b>\$ 26,360,561</b>	<b>\$ 24,614,775</b>	<b>\$ 23,028,500</b>	<b>\$ 21,295,173</b>	<b>\$ 24,106,837</b>

- (1) This schedule reports using the accrual basis of accounting.
- (2) Fiscal year 2012 unrestricted net position was restated as a result of GASB Statement No. 61 in which Northern Arizona Capital Facilities Corporation was reclassified from a discrete non-major university component unit to a blended university component unit.
- (3) Fiscal year 2012 restricted net position was restated as a result of an agency fund being reclassified to a special revenue fund.
- (4) Fiscal year 2013 unrestricted net position for the Universities was restated as a result of GASB Statement No. 65 to expense debt issuance costs.
- (5) Fiscal year 2014 net investment in capital assets was restated due to a correction of an error related to the private prisons' capital leases.
- (6) Fiscal year 2014 unrestricted net position has been restated due to the implementation of GASB Statement No. 68.
- (7) Fiscal year 2014 restricted net position was restated due to the fund reclassification of the Insurance Department Guaranty Fund.
- (8) Fiscal year 2015 net investment in capital assets and unrestricted net position was restated due to the fund reclassification of the Arizona Highways Magazine Fund.
- (9) Fiscal year 2015 net investment in capital assets and unrestricted net position for the Universities was restated due to the implementation of GASB Statement No. 72.
- (10) Fiscal year 2016 unrestricted net position for the Universities was restated due to the reclassification of Thunderbird School of Global Management from a discrete non-major university component unit to a blended university component unit.

Fiscal Year

2012, as restated	2011	2010	2009	2008
\$ 16,940,512	\$ 16,326,569	\$ 15,738,121	\$ 15,094,719	\$ 14,530,867
5,447,576	5,125,527	4,648,280	3,990,594	4,987,365
(3,351,315)	(4,243,824)	(4,155,346)	(2,984,628)	(1,105,246)
<u>\$ 19,036,773</u>	<u>\$ 17,208,272</u>	<u>\$ 16,231,055</u>	<u>\$ 16,100,685</u>	<u>\$ 18,412,986</u>
\$ 1,483,416	\$ 1,397,683	\$ 1,352,658	\$ 1,328,658	\$ 1,387,655
496,444	501,437	550,102	1,085,399	1,581,212
810,810	695,862	576,426	376,908	188,354
<u>\$ 2,790,670</u>	<u>\$ 2,594,982</u>	<u>\$ 2,479,186</u>	<u>\$ 2,790,965</u>	<u>\$ 3,157,221</u>
\$ 18,423,928	\$ 17,724,252	\$ 17,090,779	\$ 16,423,377	\$ 15,918,522
5,944,020	5,626,964	5,198,382	5,075,993	6,568,577
(2,540,505)	(3,547,962)	(3,578,920)	(2,607,720)	(916,892)
<u>\$ 21,827,443</u>	<u>\$ 19,803,254</u>	<u>\$ 18,710,241</u>	<u>\$ 18,891,650</u>	<u>\$ 21,570,207</u>

STATE OF ARIZONA  
SCHEDULE 2  
**CHANGES IN NET POSITION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	Fiscal Year				2013, as restated
	2017	2016 (7)	2015 (7)	2014 (7)	
<b>EXPENSES</b>					
<b>Governmental Activities:</b>					
General government	\$ 862,738	\$ 807,320	\$ 923,659	\$ 763,830	\$ 836,431
Health and welfare (5)	15,661,167	15,152,650	14,296,714	12,768,332	12,168,426
Inspection and regulation	163,416	168,719	159,874	160,797	161,480
Education	6,369,100	6,136,303	5,859,267	5,573,656	5,372,267
Protection and safety	1,662,550	1,585,620	1,568,732	1,408,049	1,400,413
Transportation	799,882	858,958	786,028	791,006	754,510
Natural resources	216,318	208,563	204,939	200,868	204,179
Intergovernmental revenue sharing	3,349,498	3,176,183	2,966,400	2,778,299	2,685,378
Interest on long-term debt	193,099	210,326	230,871	279,525	355,975
<b>Total Governmental Activities Expenses</b>	<b>29,277,768</b>	<b>28,304,642</b>	<b>26,996,484</b>	<b>24,724,362</b>	<b>23,939,059</b>
<b>Business-type Activities:</b>					
Universities (4)	4,893,271	4,637,567	4,378,481	4,078,053	3,888,145
Unemployment Compensation (2)	-	-	-	-	-
Industrial Commission Special Fund (6)	-	-	-	36,895	38,614
Lottery (2)	-	-	-	-	-
Other	1,105,470	1,014,941	1,041,261	1,130,299	1,329,816
<b>Total Business-type Activities Expenses</b>	<b>5,998,741</b>	<b>5,652,508</b>	<b>5,419,742</b>	<b>5,245,247</b>	<b>5,256,575</b>
<b>Total Primary Government Expenses (5)</b>	<b>\$ 35,276,509</b>	<b>\$ 33,957,150</b>	<b>\$ 32,416,226</b>	<b>\$ 29,969,609</b>	<b>\$ 29,195,634</b>
<b>PROGRAM REVENUES</b>					
<b>Governmental Activities:</b>					
Charges for services:					
General government	\$ 195,805	\$ 196,179	\$ 188,356	\$ 188,943	\$ 188,462
Inspection and regulation	170,043	166,075	157,624	157,149	156,164
Transportation	149,297	143,697	113,163	113,267	119,862
Other activities	714,649	685,118	664,903	477,564	386,381
Operating grants and contributions	14,732,701	13,532,247	13,200,146	12,172,836	11,588,834
Capital grants and contributions	716,455	870,644	706,089	546,680	651,999
<b>Total Governmental Activities</b>	<b>16,678,950</b>	<b>15,593,960</b>	<b>15,030,281</b>	<b>13,656,439</b>	<b>13,091,702</b>
<b>Business-type Activities:</b>					
Charges for services:					
Universities	2,708,519	2,519,048	2,303,791	2,056,307	1,892,356
Lottery (2)	-	-	-	-	-
Other activities	1,461,686	1,468,139	1,345,566	1,325,046	1,289,456
Operating grants and contributions	1,488,002	1,452,562	1,320,612	1,343,922	1,570,854
Capital grants and contributions	27,368	11,911	43,321	41,250	15,210
<b>Total Business-type Activities</b>	<b>5,685,575</b>	<b>5,451,660</b>	<b>5,013,290</b>	<b>4,766,525</b>	<b>4,767,876</b>
<b>Total Primary Government</b>	<b>\$ 22,364,525</b>	<b>\$ 21,045,620</b>	<b>\$ 20,043,571</b>	<b>\$ 18,422,964</b>	<b>\$ 17,859,578</b>
<b>NET (EXPENSE) REVENUE</b>					
Governmental activities	\$ (12,598,818)	\$ (12,710,682)	\$ (11,966,203)	\$ (11,067,923)	\$ (10,847,357)
Business-type activities	(313,166)	(200,848)	(406,452)	(478,722)	(488,699)
<b>Total Primary Government Net (Expense)</b>	<b>\$ (12,911,984)</b>	<b>\$ (12,911,530)</b>	<b>\$ (12,372,655)</b>	<b>\$ (11,546,645)</b>	<b>\$ (11,336,056)</b>



Fiscal Year

2012, as restated	2011	2010	2009	2008
\$ 840,189	\$ 929,107	\$ 941,813	\$ 928,485	\$ 982,382
11,992,408	12,558,119	13,090,357	12,055,439	10,884,297
151,937	149,649	157,786	176,354	185,996
5,331,848	5,467,543	5,706,667	6,084,342	6,242,173
1,380,999	1,299,205	1,451,571	1,514,282	1,510,615
808,967	857,194	511,397	695,070	670,173
213,339	196,210	183,535	228,430	250,258
2,473,881	2,462,178	2,585,683	2,755,710	3,023,836
350,483	341,801	261,518	222,851	179,795
<u>23,544,051</u>	<u>24,261,006</u>	<u>24,890,327</u>	<u>24,660,963</u>	<u>23,929,525</u>
3,629,568	3,533,977	3,343,377	3,290,033	3,227,481
1,069,531	1,655,364	2,103,028	1,086,330	356,333
83,290	27,196	67,750	30,055	14,824
496,830	439,069	432,150	395,950	372,740
113,347	115,442	126,029	142,229	162,300
<u>5,392,566</u>	<u>5,771,048</u>	<u>6,072,334</u>	<u>4,944,597</u>	<u>4,133,678</u>
<u>\$ 28,936,617</u>	<u>\$ 30,032,054</u>	<u>\$ 30,962,661</u>	<u>\$ 29,605,560</u>	<u>\$ 28,063,203</u>
\$ 189,175	\$ 191,738	\$ 208,316	\$ 199,011	\$ 190,374
150,557	149,890	143,329	153,642	159,857
108,877	114,453	123,372	138,520	149,560
398,893	381,633	402,496	315,660	318,776
11,357,470	12,580,013	13,735,263	10,620,642	9,190,910
778,572	745,559	576,027	553,198	523,898
<u>12,983,544</u>	<u>14,163,286</u>	<u>15,188,803</u>	<u>11,980,673</u>	<u>10,533,375</u>
1,752,509	1,601,077	1,432,055	1,272,694	1,167,696
646,675	583,537	551,492	484,486	472,937
584,240	560,502	509,254	439,010	485,242
1,705,773	2,212,673	2,260,071	1,243,697	898,441
53,571	14,799	12,563	14,710	38,029
<u>4,742,768</u>	<u>4,972,588</u>	<u>4,765,435</u>	<u>3,454,597</u>	<u>3,062,345</u>
<u>\$ 17,726,312</u>	<u>\$ 19,135,874</u>	<u>\$ 19,954,238</u>	<u>\$ 15,435,270</u>	<u>\$ 13,595,720</u>
\$ (10,560,507)	\$ (10,097,720)	\$ (9,701,524)	\$ (12,680,290)	\$ (13,396,150)
(649,798)	(798,460)	(1,306,899)	(1,490,000)	(1,071,333)
<u>\$ (11,210,305)</u>	<u>\$ (10,896,180)</u>	<u>\$ (11,008,423)</u>	<u>\$ (14,170,290)</u>	<u>\$ (14,467,483)</u>

(Continued)

STATE OF ARIZONA  
SCHEDULE 2  
**CHANGES IN NET POSITION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	Fiscal Year				2013, as restated
	2017	2016 (7)	2015 (7)	2014 (7)	
<b>GENERAL REVENUES AND OTHER</b>					
<b>CHANGES IN NET POSITION</b>					
<b>Governmental Activities:</b>					
Taxes:					
Sales	\$ 6,775,704	\$ 6,455,837	\$ 6,290,950	\$ 5,948,055	\$ 6,518,480
Income	4,500,902	4,511,674	4,430,602	3,963,197	3,974,998
Tobacco	316,073	318,902	314,522	314,313	316,050
Property	46,798	51,735	52,241	41,215	27,429
Motor vehicle and fuel	1,875,392	1,823,998	1,694,779	1,650,579	1,592,911
Other	655,363	616,580	560,920	547,481	531,186
Unrestricted investment earnings	50,009	58,250	87,115	79,215	18,705
Unrestricted grants and contributions	35,032	115,097	39,847	37,926	45,746
Gain (loss) on sale of trust land	47,503	75,042	97,231	83,695	174,095
Miscellaneous general revenues (3)	117,933	247,462	232,658	176,035	144,403
Transfers	(529,455)	(465,840)	(601,539)	(578,361)	(534,722)
<b>Total Governmental Activities</b>	<b>13,891,254</b>	<b>13,808,737</b>	<b>13,199,326</b>	<b>12,263,350</b>	<b>12,809,281</b>
<b>Business-type Activities:</b>					
Sales taxes	72,696	69,927	64,757	63,669	57,490
Unrestricted investment earnings	81,363	68,795	37,839	108,296	62,017
Unrestricted grants and contributions	-	548	-	107	5
Miscellaneous general revenues	79,726	65,143	138,931	78,837	148,743
Contributions to permanent endowments	3,276	5,472	5,740	6,561	3,192
Special items	-	-	-	-	-
Extraordinary items	-	-	-	3,900	-
Transfers	529,455	465,840	601,539	578,361	534,722
<b>Total Business-type Activities</b>	<b>766,516</b>	<b>675,725</b>	<b>848,806</b>	<b>839,731</b>	<b>806,169</b>
<b>Total Primary Government</b>	<b>\$ 14,657,770</b>	<b>\$ 14,484,462</b>	<b>\$ 14,048,132</b>	<b>\$ 13,103,081</b>	<b>\$ 13,615,450</b>
<b>CHANGE IN NET POSITION</b>					
Governmental activities	\$ 1,292,436	\$ 1,098,055	\$ 1,233,123	\$ 1,195,427	\$ 1,961,924
Business-type activities	453,350	474,877	442,354	361,009	317,470
<b>Total Primary Government</b>	<b>\$ 1,745,786</b>	<b>\$ 1,572,932</b>	<b>\$ 1,675,477</b>	<b>\$ 1,556,436</b>	<b>\$ 2,279,394</b>

- (1) This schedule reports using the accrual basis of accounting.
- (2) For fiscal year 2013, Unemployment Compensation and Lottery changed from major to non-major funds.
- (3) Fiscal year 2012 miscellaneous general revenues was restated as a result of an agency fund being reclassified to a special revenue fund.
- (4) Fiscal year 2013 expenses for the Universities were restated as a result of GASB Statement No. 65 to expense debt issuance costs.
- (5) For fiscal year 2015, Health and Welfare expenses continue to climb as a result of enrollment increases.
- (6) For fiscal year 2015, Industrial Commission Special Fund changed from a major to a non-major fund.
- (7) Historical data has not been restated for footnote items (5) - (10) in Schedule 1.

Fiscal Year					
2012, as restated	2011	2010	2009	2008	
\$ 6,296,151	\$ 5,942,250	\$ 5,029,050	\$ 5,442,563	\$ 6,270,419	
3,706,698	3,366,783	2,809,995	3,126,076	4,205,426	
317,369	320,657	332,893	370,073	413,333	
30,656	32,038	31,417	32,564	36,732	
1,581,909	1,565,525	1,583,790	1,643,276	1,800,920	
522,510	550,430	535,435	574,030	559,440	
79,190	29,183	37,665	92,957	243,160	
40,678	16,468	13,213	12,440	13,574	
125,479	(154,359)	64,005	(165,696)	196,953	
265,214	140,854	204,295	222,712	214,751	
(576,846)	(734,892)	(809,864)	(983,006)	(994,435)	
<u>12,389,008</u>	<u>11,074,937</u>	<u>9,831,894</u>	<u>10,367,989</u>	<u>12,960,273</u>	
55,309	52,913	52,318	58,528	72,945	
49,501	68,401	70,766	22,450	39,763	
3,468	-	-	-	-	
155,757	50,510	52,072	45,786	64,564	
3,270	3,656	3,020	4,014	3,927	
-	-	-	7,240	(20,100)	
-	3,884	7,080	2,720	15,475	
576,846	734,892	809,864	983,006	994,435	
<u>844,151</u>	<u>914,256</u>	<u>995,120</u>	<u>1,123,744</u>	<u>1,171,009</u>	
<u>\$ 13,233,159</u>	<u>\$ 11,989,193</u>	<u>\$ 10,827,014</u>	<u>\$ 11,491,733</u>	<u>\$ 14,131,282</u>	
\$ 1,828,501	\$ 977,217	\$ 130,370	\$ (2,312,301)	\$ (435,877)	
194,353	115,796	(311,779)	(366,256)	99,676	
<u>\$ 2,022,854</u>	<u>\$ 1,093,013</u>	<u>\$ (181,409)</u>	<u>\$ (2,678,557)</u>	<u>\$ (336,201)</u>	

STATE OF ARIZONA  
SCHEDULE 3  
**FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	Fiscal Year				
	2017	2016	2015, as restated	2014	2013
<b>GENERAL FUND:</b>					
Reserved for:					
Budget stabilization fund	\$ -	\$ -	\$ -	\$ -	\$ -
School facilities improvements	-	-	-	-	-
Continuing appropriations	-	-	-	-	-
Other fund balance reservations	-	-	-	-	-
Unreserved	-	-	-	-	-
Nonspendable (2)	9,990	9,669	9,168	9,600	844
Restricted (2)	189,321	91,833	241,919	124,390	192,187
Committed (2)	93,343	126,484	99,145	79,837	73,237
Unassigned (2,4)	(258,262)	(78,903)	(325,380)	(189,238)	156,935
<b>Total General Fund</b>	<b>\$ 34,392</b>	<b>\$ 149,083</b>	<b>\$ 24,852</b>	<b>\$ 24,589</b>	<b>\$ 423,203</b>

**ALL OTHER GOVERNMENTAL FUNDS:**

Reserved for:					
Highway construction	\$ -	\$ -	\$ -	\$ -	\$ -
Other construction	-	-	-	-	-
School facilities improvements	-	-	-	-	-
Permanent funds	-	-	-	-	-
Continuing appropriations	-	-	-	-	-
Debt service	-	-	-	-	-
Other fund balance reservations	-	-	-	-	-
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Nonspendable (2)	5,603,620	5,124,432	5,181,556	4,878,682	4,160,485
Restricted (2,3)	1,479,706	1,488,010	1,573,453	1,741,674	1,860,872
Committed (2)	964,570	937,949	825,740	734,446	661,110
Unassigned (2,5)	(18,752)	(21,325)	(27,562)	(29,744)	(26,266)
<b>Total All Other Governmental Funds</b>	<b>\$ 8,029,144</b>	<b>\$ 7,529,066</b>	<b>\$ 7,553,187</b>	<b>\$ 7,325,058</b>	<b>\$ 6,656,201</b>

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) Beginning in fiscal year 2011, the fund balance categories were reclassified as a result of implementing GASB Statement No. 54. Additionally, as a result of the reclassification, fund balance for fiscal year 2010 was restated.
- (3) Fiscal year 2012 restricted fund balance was restated as a result of an agency fund being reclassified to a special revenue fund.
- (4) Fiscal year 2015 unassigned fund balance was restated as a result of funds being reclassified from the General Fund to Other Internal Service Funds.
- (5) Fiscal year 2015 unassigned fund balance was restated due to the fund reclassification of the Arizona Highways Magazine Fund.

Fiscal Year

2012, as restated	2011	2010, as restated (2)	2009	2008
\$ -	\$ -	\$ -	\$ 2,767	\$ 147,212
-	-	14,764	376,993	1,914
-	-	55,354	43,091	103,320
-	-	232	252	262
-	-	(817,348)	(1,401,381)	108,914
891	716	-	-	-
246,977	317,471	-	-	-
109,469	141,183	-	-	-
(437,035)	(1,162,531)	-	-	-
<u>\$ (79,698)</u>	<u>\$ (703,161)</u>	<u>\$ (746,998)</u>	<u>\$ (978,278)</u>	<u>\$ 361,622</u>

\$ -	\$ -	\$ 809,497	\$ 1,304,781	\$ 1,253,202
-	-	45,403	108,129	238,985
-	-	-	-	-
-	-	2,674,953	2,196,040	2,544,365
-	-	116,350	212,553	143,785
-	-	26,389	27,115	35,236
-	-	40,327	7,447	27,132
-	-	821,491	767,258	919,679
-	-	-	-	-
3,472,005	3,244,080	-	-	-
1,762,356	1,531,992	-	-	-
514,085	452,447	-	-	-
(33,861)	(39,009)	-	-	-
<u>\$ 5,714,585</u>	<u>\$ 5,189,510</u>	<u>\$ 4,534,410</u>	<u>\$ 4,623,323</u>	<u>\$ 5,162,384</u>

STATE OF ARIZONA  
SCHEDULE 4  
**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	Fiscal Year				
	2017	2016	2015 (6)	2014	2013
<b>REVENUES</b>					
Taxes:					
Sales	\$ 6,732,684	\$ 6,450,967	\$ 6,281,286	\$ 5,933,824	\$ 6,530,609
Income	4,473,790	4,513,219	4,398,928	4,012,603	4,034,631
Tobacco	316,073	318,902	314,522	314,313	316,050
Property	46,798	51,735	52,241	41,215	27,429
Motor vehicle and fuel	1,875,392	1,823,998	1,694,779	1,650,579	1,592,911
Other	655,363	616,580	560,920	547,481	531,186
Intergovernmental	14,787,324	14,166,387	13,606,650	11,752,711	11,592,676
Licenses, fees, and permits	573,867	542,064	486,331	475,833	476,972
Hospital and nursing facility assessments	292,049	299,608	291,324	91,578	-
Earnings (loss) on investments (2)	639,717	175,444	295,125	739,859	499,919
Sales and charges for services (4)	229,099	188,667	193,553	185,682	182,075
Fines, forfeitures, and penalties	136,161	159,647	152,728	171,161	181,216
Gaming	89,310	91,748	89,512	86,326	86,507
Tobacco settlement	101,522	98,907	99,975	100,765	149,125
Proceeds from sale of trust land (3)	179,028	91,022	123,483	86,319	225,659
Other (5)	167,229	264,474	254,522	208,858	169,119
Total Revenues	<u>31,295,406</u>	<u>29,853,369</u>	<u>28,895,879</u>	<u>26,399,107</u>	<u>26,596,084</u>
<b>EXPENDITURES</b>					
Current:					
General government (4)	787,284	714,313	843,159	750,163	812,770
Health and welfare	15,813,515	15,074,454	14,388,149	12,643,455	12,216,622
Inspection and regulation	160,362	165,009	158,495	161,318	160,636
Education	6,364,016	6,132,751	5,857,390	5,572,414	5,369,538
Protection and safety	1,487,181	1,456,651	1,402,225	1,360,387	1,349,146
Transportation	732,029	815,811	700,080	687,798	683,607
Natural resources	198,567	189,614	189,302	193,043	194,714
Intergovernmental revenue sharing	3,349,498	3,176,183	2,966,400	2,778,299	2,685,168
Debt service:					
Principal	639,779	517,389	560,497	493,592	412,617
Interest and other fiscal charges	229,932	249,704	270,872	312,024	329,773
Capital outlay	894,210	814,002	783,926	829,630	765,339
Total Expenditures	<u>30,656,373</u>	<u>29,305,881</u>	<u>28,120,495</u>	<u>25,782,123</u>	<u>24,979,930</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>639,033</u>	<u>547,488</u>	<u>775,384</u>	<u>616,984</u>	<u>1,616,154</u>

Fiscal Year

	2012, as restated	2011	2010, as restated	2009	2008
\$	6,312,870	\$ 5,971,141	\$ 5,017,977	\$ 5,429,453	\$ 6,278,181
	3,715,082	3,398,972	2,805,426	3,137,794	4,174,966
	317,369	320,657	332,893	370,073	413,333
	30,656	32,038	31,417	32,564	36,732
	1,581,909	1,565,525	1,585,919	1,672,151	1,802,572
	522,510	550,430	535,435	574,030	559,440
	11,843,908	13,019,744	13,562,547	11,316,023	9,499,419
	477,344	452,629	425,526	410,002	447,090
	-	-	-	-	-
	190,055	438,068	422,564	(318,321)	135,879
	188,806	186,325	203,725	154,671	167,329
	168,240	184,950	224,000	203,337	167,309
	85,535	80,455	77,554	84,140	94,004
	101,067	99,130	105,394	125,571	115,587
	137,405	95,500	78,564	143,674	-
	297,065	164,658	230,223	253,868	263,443
	<u>25,969,821</u>	<u>26,560,222</u>	<u>25,639,164</u>	<u>23,589,030</u>	<u>24,155,284</u>
	838,776	933,313	923,977	913,266	966,512
	12,029,530	12,818,468	13,054,472	11,959,640	10,874,581
	153,947	153,718	157,461	174,633	184,451
	5,332,141	5,467,695	5,702,963	6,031,605	6,240,862
	1,351,251	1,288,577	1,417,428	1,460,692	1,447,372
	745,306	820,417	584,363	608,631	630,283
	202,677	191,429	175,568	220,030	242,893
	2,473,535	2,459,934	2,574,539	2,764,776	3,026,563
	386,027	383,591	288,172	235,971	261,228
	344,903	357,754	286,027	238,430	210,856
	769,716	824,417	1,291,341	1,295,530	1,106,951
	<u>24,627,809</u>	<u>25,699,313</u>	<u>26,456,311</u>	<u>25,903,204</u>	<u>25,192,552</u>
	<u>1,342,012</u>	<u>860,909</u>	<u>(817,147)</u>	<u>(2,314,174)</u>	<u>(1,037,268)</u>

(Continued)

## STATE OF ARIZONA

## SCHEDULE 4

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2017

(Expressed in Thousands)

	Fiscal Year				
	2017	2016	2015 (6)	2014	2013
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	866,241	914,817	856,446	904,261	782,420
Transfers out	(1,303,531)	(1,367,979)	(1,392,301)	(1,397,332)	(1,256,408)
Proceeds from sale of trust land (3)	-	-	-	-	-
Proceeds from sale of capital assets	1,294	1,203	259	900	1,636
Capital lease and installment purchase contracts	43,248	3,579	1,025	113,914	15,158
Proceeds from notes and loans	-	-	783	29,130	51,550
Bonds issued	-	-	-	-	194,295
Certificates of participation issued	119,880	-	-	-	-
Grant anticipation notes issued	-	-	-	-	-
Refunding bonds issued	312,900	-	754,285	-	837,340
Refunding certificates of participation issued	-	427,540	-	305,675	62,630
Refunding grant anticipation notes issued	90,410	-	-	-	-
Payment to refunded bond escrow agent	(389,350)	(62,630)	(900,813)	-	(954,372)
Payment to refunded certificates of participation escrow agent	-	(422,841)	-	(310,059)	(42,096)
Payment to refunded grant anticipation notes escrow agent	(112,128)	-	-	-	-
Premium on debt issued	117,390	58,933	149,554	6,770	136,210
Total Other Financing Sources (Uses)	(253,646)	(447,378)	(530,762)	(346,741)	(171,637)
<b>NET CHANGE IN FUND BALANCES</b>	<b>\$ 385,387</b>	<b>\$ 100,110</b>	<b>\$ 244,622</b>	<b>\$ 270,243</b>	<b>\$ 1,444,517</b>
<b>DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES</b>	2.9%	2.7%	3.0%	3.2%	3.1%

(1) This schedule reports using the modified accrual basis of accounting.

(2) In fiscal year 2008, the Greater Arizona Development Authority Fund was reclassified from a special revenue fund to a component unit.

(3) In fiscal year 2009, "Proceeds from sale of trust land" was moved from "Other financing sources (uses)" to "Revenues."

(4) In fiscal year 2010, amounts were restated as a result of implementing GASB Statement No. 54.

(5) Fiscal year 2012 other revenues was restated as a result of an agency fund being reclassified to a special revenue fund.

(6) Historical data has not been restated for footnote items (4) - (5) in Schedule 3.



Fiscal Year

2012, as restated	2011	2010, as restated	2009	2008
821,072	862,040	1,106,250	1,248,267	897,771
(1,323,778)	(1,574,406)	(1,872,212)	(2,168,964)	(1,874,084)
-	-	-	-	249,970
1,815	3,712	3,088	2,127	28,233
8,166	4,583	187,836	4,056	23,556
9,541	11,113	32,628	23,139	19,529
259,460	180,000	425,420	621,050	563,950
-	150,110	998,795	580,035	238,990
-	158,585	-	55,420	68,000
455,900	-	-	-	82,880
-	-	-	-	-
43,825	-	-	-	-
(560,228)	-	-	-	(86,547)
-	-	-	-	-
-	-	-	-	-
90,753	42,291	77,709	70,083	48,972
(193,474)	(161,972)	959,514	435,213	261,220
<u>\$ 1,148,538</u>	<u>\$ 698,937</u>	<u>\$ 142,367</u>	<u>\$ (1,878,961)</u>	<u>\$ (776,048)</u>
3.1%	3.0%	2.3%	1.9%	2.0%

STATE OF ARIZONA  
SCHEDULE 5  
**NET TAXABLE SALES BY CLASSIFICATION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

	Fiscal Year					
	2017	2016	2015	2014	2013	2012
<b>CLASSIFICATION (5)</b>						
Transporting (2)	\$ 39,944	\$ 56,139	\$ 57,588	\$ 54,981	\$ 41,324	\$ 52,137
Mining, oil and gas	140,648	154,947	111,808	116,678	115,775	105,614
Mining severance	735,086	607,840	994,478	1,047,580	1,193,176	1,623,111
Utilities	9,920,286	10,031,989	9,856,234	9,923,490	9,900,238	9,474,521
Communications	2,000,877	2,306,786	2,565,400	2,965,233	3,061,730	3,190,962
Private car and pipelines	22,117	2,577	6,498	5,616	6,250	1,186
Publishing	87,179	105,270	106,357	101,751	84,673	92,505
Job printing	237,887	236,324	259,672	321,225	235,349	252,603
Restaurants and bars	13,571,567	12,715,254	12,053,486	11,085,652	10,544,419	9,996,825
Amusements	1,323,661	1,342,700	1,252,514	1,096,945	1,051,581	1,037,059
Commercial lease (3)	50	2	6	2	2	1
Personal property rentals	3,947,160	3,689,976	3,453,882	3,355,048	3,254,822	3,257,588
Contracting	10,252,613	9,601,228	10,653,405	11,269,503	10,092,876	9,543,335
Retail	63,922,406	61,614,309	58,463,542	55,257,510	51,276,108	48,178,714
MRRA amount (7)	155,624	160,125	26,816	-	-	-
Hotel/motel	3,058,663	2,819,143	2,675,510	2,334,373	2,221,059	2,156,864
Rental occupancy tax (6)	-	(503)	-	-	-	(3)
Use tax	6,069,074	5,703,365	5,659,094	4,749,508	5,186,464	5,302,844
Use tax-utilities	34,764	38,945	48,070	62,511	10,283	10,022
Membership camping (6)	-	-	-	-	-	-
<b>Total</b>	<b>\$ 115,519,606</b>	<b>\$ 111,186,416</b>	<b>\$ 108,244,360</b>	<b>\$ 103,747,606</b>	<b>\$ 98,276,129</b>	<b>\$ 94,275,888</b>
Direct sales tax rate (4)	5.60%	5.60%	5.60%	5.60%	6.60%	6.60%

(1) Net taxable sales are based upon tax receipts.

(2) The transporting/towing and railroads/aircraft business classifications have been combined into one category and renamed "transporting."

(3) Commercial lease rate dropped to 0% effective July 1, 1997.

(4) A significant portion of the revenue base was subject to a sales tax rate of 5.6% for fiscal years 2008 through 2010, and 2014 through 2017. The sales tax rate was 6.6% for fiscal years 2011 through 2013. For fiscal years 2008 through 2017, the tax rate for non-metal mining, oil and gas was 3.125%, the mining severance was 2.5%, and the jet fuel and jet fuel use tax was \$.0305 per gallon. The hotel/motel tax rate was 5.5% for fiscal years 2008 through 2010 and 2014 through 2017. The hotel/motel tax rate was 6.5% for fiscal years 2011 through 2013. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with an affirmative vote of two-thirds of the members of each house. The 1.00% rate increase approved under Proposition 100 on May 18, 2010 increased the state transaction privilege and use rate by one percentage point beginning June 1, 2010 and ending May 31, 2013, which is reflected in this table.

(5) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.

(6) Effective November 1, 2006, membership camping and rental occupancy were repealed.

(7) MRRA - Maintenance, Repair, Replacement or Alteration projects

Source: Arizona Department of Revenue Annual Reports for fiscal years 2017 and prior.

Fiscal Year

2011	2010	2009	2008
\$ 41,555	\$ 41,990	\$ 37,920	\$ 48,713
96,514	102,900	175,743	216,675
1,609,451	1,164,231	729,482	1,752,522
9,394,361	9,354,244	9,236,366	9,237,779
2,853,538	3,618,208	2,928,433	3,669,683
1,908	1,640	7,743	16,021
98,343	103,681	102,457	122,652
266,564	236,985	307,581	391,038
9,311,826	9,020,795	9,094,485	9,663,959
994,092	1,051,919	1,053,048	1,146,344
2	141	1	(443)
3,056,386	3,127,828	3,552,696	3,995,697
8,983,261	9,311,612	14,882,706	20,156,299
45,898,838	42,913,933	46,174,068	52,626,993
-	-	-	-
2,039,283	1,949,718	2,117,242	2,405,705
43	(62)	(25)	(2,669)
4,610,921	5,464,504	5,882,942	6,837,880
10,040	(35,594)	38,653	12,461
1	10	11	52
<u>\$ 89,266,927</u>	<u>\$ 87,428,683</u>	<u>\$ 96,321,552</u>	<u>\$ 112,297,361</u>
6.60%	5.60%	5.60%	5.60%

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STATE OF ARIZONA  
SCHEDULE 6  
**SALES TAX REVENUE PAYERS BY CLASSIFICATION**  
CURRENT YEAR AND NINE YEARS AGO  
(Expressed in Thousands)

<b>CLASSIFICATION</b>	Fiscal Year 2017		Fiscal Year 2008	
	Tax	Percentage	Tax	Percentage
	Collections	of Total	Collections	of Total
Transporting	\$ 1,997	0.03 %	\$ 2,418	0.04 %
Non-metal mining, oil and gas	4,395	0.07	6,761	0.11
Mining severance	18,377	0.29	43,752	0.70
Timbering severance - other (1)	-	-	5	-
Utilities	496,014	7.70	461,455	7.41
Communications	100,044	1.55	183,289	2.95
Private car and pipelines	1,106	0.02	800	0.01
Publishing	4,359	0.07	6,125	0.10
Job Printing	11,894	0.18	19,528	0.31
Restaurants and bars	678,578	10.53	482,664	7.76
Amusements	66,183	1.03	57,247	0.92
Commercial lease	2	-	(17)	-
Personal property rentals	197,358	3.06	199,569	3.21
Contracting	512,631	7.95	1,006,520	16.17
Retail	3,196,120	49.59	2,628,261	42.23
MRRRA amount (3)	7,781	0.12	-	-
Hotel/motel	168,226	2.61	132,163	2.12
Rental occupancy tax (1)	-	-	(80)	-
Use tax utilities	1,738	0.03	623	0.01
Use tax	300,977	4.67	340,535	5.47
License fees	493	0.01	562	0.01
Membership camping (1)	-	-	3	-
Jet fuel tax	3,634	0.06	4,636	0.07
Jet fuel use tax	636	0.01	1,045	0.02
Non sufficient funds	80	-	(2)	-
Telecommunications service assistance	-	-	(246)	-
Mandatory EFT fees	401	0.01	-	-
Other	4	-	-	-
Education tax (2)	670,788	10.41	645,828	10.38
<b>Total</b>	<b>\$ 6,443,816</b>	<b>100.00 %</b>	<b>\$ 6,223,444</b>	<b>100.00 %</b>

(1) Effective November 1, 2006 these rates were repealed.

(2) The education tax is .6% of net taxable sales for most classifications. The ones that do not collect the education tax are non-metal mining, oil and gas, mining and timbering severances, hotel/motel, rental occupancy, and jet fuel taxes. The Arizona Department of Revenue's annual report does not include the amount of education tax collected from each classification; rather it reports the total collected from all classifications. The education tax became effective June 1, 2001.

(3) MRRRA - Maintenance, Repair, Replacement or Alteration projects

Source: Arizona Department of Revenue Annual Reports for fiscal years 2017 and 2008.

STATE OF ARIZONA  
SCHEDULE 7  
**PERSONAL INCOME BY INDUSTRY (3)**  
FOR THE LAST TEN CALENDAR YEARS  
(Expressed in Thousands)

<u>CLASSIFICATION</u>	Calendar Year Ended December 31					
	2016	2015	2014	2013	2012	2011
Farm earnings	\$ 1,470,281	\$ 1,201,310	\$ 934,340	\$ 1,312,963	\$ 838,149	\$ 986,598
Forestry and fishing	544,389	507,578	457,211	418,125	420,191	411,590
Mining	1,556,389	1,580,868	1,556,979	1,525,571	1,495,055	1,259,935
Utilities	1,788,954	1,637,943	1,650,735	1,565,076	1,533,360	1,576,104
Construction	10,622,652	9,689,258	9,243,613	8,790,400	8,003,318	7,947,236
Manufacturing	15,145,697	14,535,076	13,905,694	13,508,342	13,443,386	12,554,687
Wholesale trade	9,382,681	9,112,987	8,750,289	8,547,831	8,733,631	8,170,692
Retail trade	13,949,120	13,577,514	13,259,756	12,253,411	12,199,851	11,661,215
Transportation and warehousing	6,045,689	5,721,874	5,319,313	4,979,371	4,946,749	4,728,582
Information	4,463,174	4,259,273	3,998,716	3,504,838	3,055,255	2,900,083
Finance and insurance	14,104,304	13,135,651	12,099,445	11,671,079	10,799,241	9,972,362
Real estate, rental, and leasing	5,229,291	4,852,420	4,313,306	3,863,961	2,531,787	1,863,755
Professional and technical services	14,973,895	14,269,427	13,519,269	12,947,459	12,599,318	12,402,658
Managing companies/enterprises	3,285,975	3,256,235	3,183,119	2,935,527	2,608,755	2,346,356
Administrative and waste services	11,702,382	11,284,715	10,760,825	10,163,430	9,340,137	8,991,287
Educational services	3,128,728	3,100,056	2,992,470	2,880,938	2,940,193	2,723,794
Health care and social assistance	23,656,476	22,351,321	21,267,944	20,594,056	20,050,230	19,524,082
Arts, entertainment, and recreation	2,334,454	2,157,327	2,186,768	1,925,711	1,764,728	1,465,553
Accommodation and food services	7,412,941	7,073,431	6,563,175	6,516,177	6,221,565	5,783,947
Other services, except public administration	6,903,052	6,685,309	6,445,786	5,973,996	5,897,588	5,437,293
Government and government enterprises	31,343,793	30,795,390	29,890,058	29,631,725	29,431,030	29,046,914
Other (1)	91,075,720	89,473,316	83,397,554	76,671,517	77,366,788	74,084,162
<b>Total</b>	<b>\$ 280,120,037</b>	<b>\$ 270,258,279</b>	<b>\$ 255,696,365</b>	<b>\$ 242,181,504</b>	<b>\$ 236,220,305</b>	<b>\$ 225,838,885</b>
Average effective rate (2)	1.47%	1.47%	1.47%	1.43%	1.44%	1.37%

(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 2014 and 2015 were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.

Source: U.S. Bureau of Economic Analysis and Arizona Department of Revenue Annual Report.

Calendar Year Ended December 31

	2010	2009	2008	2007
\$	537,775	\$ 415,586	\$ 660,325	\$ 837,247
	406,597	396,382	380,207	429,782
	1,057,660	1,125,533	1,523,010	1,222,918
	1,517,087	1,549,132	1,611,124	1,492,136
	7,825,408	9,444,991	12,482,901	15,102,178
	12,151,178	12,112,335	13,616,693	13,810,086
	7,861,596	8,005,507	8,607,556	8,655,055
	11,080,426	11,472,010	11,802,395	12,757,932
	4,426,693	4,439,809	4,703,944	4,940,699
	2,909,306	3,181,570	3,312,488	3,174,455
	9,604,969	9,474,862	9,604,128	10,362,834
	1,488,411	1,738,997	3,116,008	3,389,489
	11,636,612	11,922,372	12,953,739	12,386,226
	2,279,559	2,426,188	2,599,223	2,495,921
	8,747,337	9,054,684	9,775,205	9,737,604
	2,566,829	2,313,146	2,047,406	1,814,239
	18,762,745	18,025,043	17,449,539	15,885,446
	1,380,524	1,358,286	1,425,950	1,481,767
	5,473,932	5,578,026	6,117,394	6,406,030
	5,175,265	5,141,183	5,259,542	5,480,994
	28,808,332	28,547,342	28,488,923	26,957,426
	69,354,364	66,335,245	66,780,185	61,682,882
\$	215,052,605	\$ 214,058,229	\$ 224,317,885	\$ 220,503,346
	1.33%	1.13%	1.15%	1.55%

STATE OF ARIZONA  
SCHEDULE 8  
**PERSONAL INCOME TAX RATES**  
FOR THE LAST TEN CALENDAR YEARS  
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2016	2015	2014	2013	2012
<b><u>AVERAGE EFFECTIVE RATE (3)</u></b>					
Personal Income Tax Revenue (1)	\$ 4,131,621	\$ 3,968,883	\$ 3,761,764	\$ 3,463,266	\$ 3,398,902
Personal Income (2)	280,120,037	270,258,279	255,696,365	242,181,504	236,220,305
Average Effective Rate (3)	1.47%	1.47%	1.47%	1.43%	1.44%
<b><u>TAX RATES ON THE PORTION OF TAXABLE INCOME IN RANGES (4)</u></b>					
\$0 - \$10	2.59%	2.59%	2.59%	2.59%	2.59%
\$10 - \$25	2.88%	2.88%	2.88%	2.88%	2.88%
\$25 - \$50	3.36%	3.36%	3.36%	3.36%	3.36%
\$50 - \$150	4.24%	4.24%	4.24%	4.24%	4.24%
\$150 and over	4.54%	4.54%	4.54%	4.54%	4.54%

- (1) Personal income tax revenue includes income tax collections and refunds, on a cash basis, for the fiscal year ending the following June 30.  
(2) Personal income is reported on a calendar basis. Years 2014 and 2015 have been revised to reflect revisions made by the U.S. Bureau of Economic Analysis.  
(3) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.  
(4) Amounts shown are for single and married filing separate returns. For all other filing status returns, double the amounts for the income tax ranges. Per the Arizona Constitution, Article 9, Section 22, the Legislature can raise tax rates with a vote of two-thirds of the members of each house.

Source: Arizona Department of Revenue Annual Reports/Tax Tables and the U.S. Bureau of Economic Analysis.

STATE OF ARIZONA  
SCHEDULE 9  
**PERSONAL INCOME TAX FILERS AND LIABILITY BY INCOME LEVEL**  
FOR THE TAXABLE YEARS 2014 AND 2007 (1)  
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2014			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<b><u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u></b>				
\$50 and under	1,919,465	66.04%	\$ 474,454	12.60%
\$50 - \$100	593,107	20.41%	775,765	20.60%
\$100 - \$500	376,474	12.95%	1,590,334	42.24%
\$500 and over	17,551	0.60%	924,491	24.56%
Total	2,906,597	100.00%	\$ 3,765,044	100.00%

- (1) The taxable year 2014 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 2014, filed from January 2015 forward (or 2007, filed from January 2008 forward).  
(3) The names of the ten largest revenue payers are not available. Therefore, the categories are intended to provide alternative information regarding the sources of the State's revenue.

Source: Arizona Department of Revenue Annual Reports.



Calendar Year Ended December 31

2011	2010	2009	2008	2007
\$ 3,099,177	\$ 2,870,565	\$ 2,423,215	\$ 2,575,453	\$ 3,414,304
225,838,885	215,052,605	214,058,229	224,317,885	220,503,346
1.37%	1.33%	1.13%	1.15%	1.55%
2.59%	2.59%	2.59%	2.59%	2.59%
2.88%	2.88%	2.88%	2.88%	2.88%
3.36%	3.36%	3.36%	3.36%	3.36%
4.24%	4.24%	4.24%	4.24%	4.24%
4.54%	4.54%	4.54%	4.54%	4.54%

Taxable Year Ended December 31, 2007

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,778,062	67.49%	\$ 438,462	13.51%
555,092	21.07%	673,036	20.74%
285,248	10.83%	1,136,240	35.02%
16,045	0.61%	996,710	30.73%
<u>2,634,447</u>	<u>100.00%</u>	<u>\$ 3,244,448</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, 2017

(Expressed in Thousands, Except Amount of Debt per Capita)

	Fiscal Year					
	2017	2016	2015	2014, as restated	2013	2012
<b>GOVERNMENTAL ACTIVITIES:</b>						
Revenue bonds	\$ 2,640,330	\$ 2,899,875	\$ 3,141,190	\$ 3,406,195	\$ 3,606,720	\$ 3,593,420
Grant anticipation notes	129,475	147,320	194,670	247,710	296,240	335,230
Certificates of participation	1,804,395	1,891,460	2,030,805	2,200,675	2,360,595	2,495,825
Capital leases (3)	215,084	334,909	408,784	423,513	360,316	391,184
Installment purchase contracts	-	176	349	-	-	177
Notes payable	22,179	22,179	22,179	89,865	105,817	55,666
Premiums and discounts on debt	516,456	492,349	492,048	427,865	474,747	396,465
Deferred amount on refundings (2)	-	-	-	-	(19,945)	(813)
<b>Total Governmental Activities</b>	<b>5,327,919</b>	<b>5,788,268</b>	<b>6,290,025</b>	<b>6,795,823</b>	<b>7,184,490</b>	<b>7,267,154</b>
<b>BUSINESS-TYPE ACTIVITIES:</b>						
Revenue bonds	3,010,525	2,701,665	2,675,430	2,302,035	2,237,710	1,942,755
Certificates of participation	557,506	600,556	637,986	676,345	714,735	756,980
Capital leases	134,399	141,117	168,960	132,957	135,519	163,637
Installment purchase contracts	1,460	2,114	2,805	4,098	5,758	8,397
Notes payable	-	-	-	-	-	12,643
Premiums and discounts on debt	325,412	268,474	231,178	130,315	123,051	87,993
Deferred amount on refundings (2)	-	-	-	-	(46,096)	(33,391)
<b>Total Business-type Activities</b>	<b>4,029,302</b>	<b>3,713,926</b>	<b>3,716,359</b>	<b>3,245,750</b>	<b>3,170,677</b>	<b>2,939,014</b>
<b>Total Primary Government</b>	<b>\$ 9,357,221</b>	<b>\$ 9,502,194</b>	<b>\$ 10,006,384</b>	<b>\$ 10,041,573</b>	<b>\$ 10,355,167</b>	<b>\$ 10,206,168</b>
Debt as a Percentage of						
Personal Income (1)	3.3%	3.5%	3.9%	4.1%	4.4%	4.5%
Amount of Debt per Capita (1)						
	\$ 1,350	\$ 1,394	\$ 1,489	\$ 1,516	\$ 1,581	\$ 1,578

Note: Details regarding the State's outstanding debt can be found in the notes to the financial statements.

- (1) See Schedule 22 for personal income and population data. These ratios are calculated using personal income and population data for the calendar year that ends during that fiscal year. For example, fiscal year 2016 contains data for the calendar year ending December 31, 2015.
- (2) Implementation of GASB Statement No. 65 in fiscal year 2014 required the amortization of deferred amount on refundings to be reported as deferred outflow of resources.
- (3) For fiscal year 2014, capital leases related to private prisons were restated due to a correction of an error.

Fiscal Year

	2011	2010	2009	2008
\$	3,529,115	\$ 3,522,605	\$ 3,251,580	\$ 2,759,070
	392,495	304,480	329,650	298,280
	2,611,255	2,571,125	1,649,870	1,135,640
	400,540	412,919	236,125	249,876
	245	901	6,343	8,908
	59,891	60,712	42,668	22,838
	342,602	334,721	285,613	242,816
	(1,221)	(5,197)	(9,171)	(13,145)
	<u>7,334,922</u>	<u>7,202,266</u>	<u>5,792,678</u>	<u>4,704,283</u>
	1,742,125	1,692,825	1,239,675	902,255
	812,706	840,719	872,829	903,843
	167,841	171,448	175,453	179,052
	10,511	13,043	16,418	13,024
	292	360	674	1,022
	41,393	39,705	43,112	38,211
	(20,875)	(23,100)	(25,294)	(27,711)
	<u>2,753,993</u>	<u>2,735,000</u>	<u>2,322,867</u>	<u>2,009,696</u>
\$	<u><u>10,088,915</u></u>	<u><u>\$ 9,937,266</u></u>	<u><u>\$ 8,115,545</u></u>	<u><u>\$ 6,713,979</u></u>
	4.7%	4.6%	3.6%	3.0%
\$	1,574	\$ 1,567	\$ 1,292	\$ 1,089

STATE OF ARIZONA  
SCHEDULE 11  
**LEGAL DEBT MARGIN INFORMATION**  
**ARIZONA STATE UNIVERSITY**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year (1)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (2)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2017	\$ 2,311,364	\$ 184,909	\$ 101,700	\$ 83,209	4.40 %
2016	2,152,083	172,167	103,300	68,867	4.80
2015	2,044,231	163,538	106,300	57,238	5.20
2014	1,844,828	147,586	107,000	40,586	5.80
2013	1,710,909	136,873	94,100	42,773	5.50
2012	1,612,000	128,960	80,600	48,360	5.00
2011	1,606,250	128,500	77,100	51,400	4.80
2010	1,894,737	151,579	108,000	43,579	5.70
2009	1,865,385	149,231	97,000	52,231	5.20
2008	2,017,544	161,404	115,000	46,404	5.70

- (1) For fiscal years 2008 through 2017, projections are based upon the University's fiscal years 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, 2018-2020, and 2019-2021 capital improvement plans, respectively.
- (2) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 12  
**LEGAL DEBT MARGIN INFORMATION**  
**UNIVERSITY OF ARIZONA**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year (1)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (2)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2017	\$ 1,954,000	\$ 156,320	\$ 97,700	\$ 58,620	5.00 %
2016	1,902,083	152,167	91,300	60,867	4.80
2015	1,856,098	148,488	76,100	72,388	4.10
2014	1,739,216	139,137	88,700	50,437	5.10
2013	1,683,019	134,642	89,200	45,442	5.30
2012	1,611,765	128,941	82,200	46,741	5.10
2011	1,556,364	124,509	85,600	38,909	5.50
2010	1,817,647	145,412	92,700	52,712	5.10
2009	1,681,818	134,545	92,500	42,045	5.50
2008	1,681,132	134,491	89,100	45,391	5.30

- (1) For fiscal years 2008 through 2017, projections are based upon the University's fiscal years 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, 2018-2020, and 2019-2021 capital improvement plans, respectively.
- (2) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 13  
**LEGAL DEBT MARGIN INFORMATION**  
**NORTHERN ARIZONA UNIVERSITY**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year (1)	Projected Total Expenditures	Projected Debt Service Limit (8% of Expenditures) (2)	Amount of Projected Debt Service Applicable to Limit	Legal Debt Margin	Total Projected Debt Service as a Percentage of Debt Service Limit
2017	\$ 572,340	\$ 45,787	\$ 26,900	\$ 18,887	4.70 %
2016	534,694	42,776	26,200	16,576	4.90
2015	514,673	41,174	22,800	18,374	4.43
2014	485,265	38,821	24,700	14,121	5.09
2013	453,039	36,243	24,600	11,643	5.43
2012	427,586	34,207	24,800	9,407	5.80
2011	405,109	32,409	22,200	10,209	5.48
2010	423,601	33,888	28,000	5,888	6.61
2009	419,448	33,556	28,900	4,656	6.89
2008	430,360	34,429	27,500	6,929	6.39

- (1) For fiscal years 2008 through 2017, projections are based upon the University's fiscal years 2010-2012, 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, 2018-2020, and 2019-2021 capital improvement plans, respectively.
- (2) Per ARS §15-1683, the projected debt service on bonds and certificates of participation outstanding and proposed to be issued, as shown in the University's most recent capital improvement plan reported to the Arizona Board of Regents, may not exceed, in any fiscal year shown in such capital improvement plan, more than eight percent of the University's total projected expenditures and mandatory transfers.

STATE OF ARIZONA  
SCHEDULE 14  
**PLEDGED-REVENUE COVERAGE**  
**ARIZONA TRANSPORTATION BOARD HIGHWAY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year	(1), (2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2017	\$ 610,998	\$ 74,855	\$ 68,419	\$ 143,274	4.26
2016	589,476	70,195	74,248	144,443	4.08
2015	566,352	61,660	75,937	137,597	4.12
2014	537,768	58,485	80,495	138,980	3.87
2013	512,971	60,540	78,198	138,738	3.70
2012	392,648	67,885	71,113	138,998	2.82
2011	504,175	71,770	83,960	155,730	3.24
2010	502,874	68,140	87,661	155,801	3.23
2009	509,183	64,190	89,825	154,015	3.31
2008	658,616	60,645	75,538	136,183	4.84

- (1) The Highway Revenue Bonds are secured by a prior lien on and pledge of motor vehicle and related fuel fees and taxes.
- (2) Includes vehicle license tax revenues distributed directly to the State Highway Fund. Fiscal year 2009 is net of \$66 million, 2010 is net of \$44 million, and 2011 is net of \$45 million distribution to the State General Fund.

## STATE OF ARIZONA

## SCHEDULE 15

**PLEDGED-REVENUE COVERAGE****ARIZONA TRANSPORTATION BOARD TRANSPORTATION EXCISE TAX REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2017

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service		Total	Coverage
		Principal	Interest		
2017	\$ 274,553	\$ 67,495	\$ 33,257	\$ 100,752	2.73
2016	262,971	65,585	38,001	103,586	2.54
2015	254,871	70,940	32,652	103,592	2.46
2014	243,786	58,600	44,988	103,588	2.35
2013	227,800	55,870	47,721	103,591	2.20
2012	216,281	55,460	48,129	103,589	2.09
2011	206,545	45,970	42,496	88,466	2.33
2010	199,672	33,315	38,225	71,540	2.79
2009	219,165	13,825	17,193	31,018	7.07
2008	253,742	19,045	10,673	29,718	8.54

(1) The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

## STATE OF ARIZONA

## SCHEDULE 16

**PLEDGED-REVENUE COVERAGE****SCHOOL FACILITIES BOARD STATE SCHOOL IMPROVEMENT REVENUE BONDS**

FOR THE LAST TEN FISCAL YEARS

FISCAL YEAR ENDED JUNE 30, 2017

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service		Total	Coverage
		Principal	Interest		
2017	\$ 670,788	\$ 60,290	\$ 3,923	\$ 64,213	10.45
2016	645,012	59,800	4,417	64,217	10.04
2015	626,401	57,920	6,274	64,194	9.76
2014	601,854	46,720	9,575	56,295	10.69
2013	567,824	43,680	13,487	57,167	9.93
2012	542,395	41,405	22,804	64,209	8.45
2011	514,346	39,215	25,088	64,303	8.00
2010	504,391	37,230	27,074	64,304	7.84
2009	558,900	35,420	28,885	64,305	8.69
2008	645,828	33,810	30,498	64,308	10.04

(1) Pledged revenues consist of education transaction privilege tax revenues. These revenues result from a .6% increase in the State transaction privilege and use tax rate that was approved by a statewide vote at the November 2000 election.

(2) Principal does not include sinking fund deposits of \$1,538 each year, beginning in fiscal year 2006 and ending in fiscal year 2018, that will be sufficient to retire bonds with a par amount of \$20,000 upon maturity, in fiscal year 2018.

STATE OF ARIZONA  
SCHEDULE 17  
**PLEDGED-REVENUE COVERAGE**  
**SCHOOL FACILITIES BOARD STATE SCHOOL TRUST REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year	Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2017	\$ 72,263	\$ 21,130	\$ 2,166	\$ 23,296	3.10
2016	43,506	20,180	3,115	23,295	1.87
2015	53,241	19,380	3,911	23,291	2.29
2014	57,345	19,275	4,971	24,246	2.37
2013	49,645	18,315	5,933	24,248	2.05
2012	39,155	17,400	6,846	24,246	1.61
2011	42,191	16,535	7,714	24,249	1.74
2010	38,147	15,710	8,539	24,249	1.57
2009	72,263	15,105	9,143	24,248	2.98
2008	72,263	14,470	8,400	22,870	3.16

(1) Pledged revenues consist of expendable revenue from the State School Trust. This revenue includes the State Treasurer's formula distribution of earnings on permanent fund investments as specified in the Arizona Constitution. Additionally, the State Land Commissioner distributes interest received from financed sales of trust lands and revenue received from land trust leases, except that, under current statutes, the amount of State School Trust Revenues available to pay debt service on all State School Trust Revenue Obligations shall not exceed \$72,263. Expendable trust revenues in excess of \$72,263 must be deposited in the Classroom Site Fund.

STATE OF ARIZONA  
SCHEDULE 18  
**PLEDGED-REVENUE COVERAGE**  
**LOTTERY REVENUE BONDS**  
FOR THE LAST SEVEN FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year	Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2017	\$ 193,255	\$ 20,065	\$ 17,437	\$ 37,502	5.15
2016	200,769	19,205	18,297	37,502	5.35
2015	172,108	18,305	19,194	37,499	4.59
2014	174,374	17,445	20,055	37,500	4.65
2013	174,373	16,790	20,710	37,500	4.65
2012	96,200	-	20,709	20,709	4.65
2011	96,200	-	21,630	21,630	4.45

(1) No debt service payments were due prior to fiscal year 2011.  
(2) Pledged revenues consist of lottery revenue deposited to the Lottery Fund net of operating expenses of the lottery.

STATE OF ARIZONA  
SCHEDULE 19  
**PLEDGED-REVENUE COVERAGE**  
**ARIZONA STATE UNIVERSITY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service				Total	Coverage
		Principal	Interest	Net Payments			
				(Receipts) On Swap Agreements			
2017	\$ 1,555,687	\$ 30,185	\$ 57,740	\$ 2,472	\$ 90,397	17.21	
2016	1,450,651	40,155	47,148	2,991	90,294	16.07	
2015	1,300,624	45,650	50,246	3,393	99,289	13.10	
2014	1,161,306	44,770	43,623	3,507	91,900	12.64	
2013	1,047,661	33,965	41,477	3,631	79,073	13.25	
2012	977,828	31,215	39,560	3,612	74,387	13.15	
2011	876,770	28,595	35,051	3,791	67,437	13.00	
2010	782,727	26,975	33,003	3,716	63,694	12.29	
2009	702,797	21,555	21,896	3,692	47,143	14.91	
2008	638,707	19,135	16,682	2,448	38,265	16.69	

(1) Pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue.

STATE OF ARIZONA  
SCHEDULE 20  
**PLEDGED-REVENUE COVERAGE**  
**UNIVERSITY OF ARIZONA REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year	(1), (2) Gross Revenues	(1) Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2016	1,684,171	1,451,735	232,436	25,205	45,534	70,739	3.29
2015	1,567,859	1,374,458	193,401	21,575	37,732	59,307	3.26
2014	1,400,095	1,261,247	138,848	22,600	38,250	60,850	2.28
2013	1,356,478	1,199,559	156,919	21,895	34,556	56,451	2.78
2012	1,226,227	1,126,649	99,578	17,375	31,480	48,855	2.04
2011	1,215,062	1,056,408	158,654	24,720	28,571	53,291	2.98
2010	1,128,091	962,469	165,622	23,860	24,593	48,453	3.42
2009	1,044,354	911,440	132,914	22,725	15,437	38,162	3.48
2008	1,113,954	1,005,572	108,382	21,235	14,978	36,213	2.99

(1) Gross Revenues and Direct Operating Expenses include current operating unrestricted funds only since these are the funds that are pledged for debt service payments under the System Revenue Bond Indentures. Also excluded from expenses is interest, depreciation, and amortization.

(2) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees, auxiliary enterprise revenue, sales and service revenue, and other operating revenues, such as indirect cost recovery and certain investment income.



STATE OF ARIZONA  
SCHEDULE 21  
**PLEDGED-REVENUE COVERAGE**  
**NORTHERN ARIZONA UNIVERSITY REVENUE BONDS**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017  
(Expressed in Thousands)

Fiscal Year	(1), (2), (3) Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
2017	\$ 345,708	\$ 11,790	\$ 22,831	\$ 34,621	9.99
2016	323,986	6,500	23,149	29,649	10.93
2015	303,860	6,500	20,310	26,810	11.33
2014	283,468	6,615	17,305	23,920	11.85
2013	263,733	6,610	15,474	22,084	11.94
2012	246,098	5,835	15,028	20,863	11.80
2011	220,538	24,310	14,712	39,022	5.65
2010	198,197	6,545	10,912	17,457	11.35
2009	164,877	6,570	7,383	13,953	11.82
2008	143,733	10,455	6,628	17,083	8.41

- (1) Payment of principal and interest on revenue bonds are secured by a pledge of student tuition and fees and certain auxiliary enterprise revenue, investment income and indirect cost recovery revenue.  
(2) Fiscal year 2011 includes debt defeasance of \$18.7 million.  
(3) Fiscal year 2013 gross revenue was revised by NAU in fiscal year 2014.

STATE OF ARIZONA  
SCHEDULE 22  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended	Population (1,3)	Personal Income (3) (in thousands)	Per Capita Personal (2) Income	Unemployment Rate (4)
December 31				
2016	\$ 6,931,071	\$ 280,120,037	\$ 40,415	4.7
2015	6,817,565	270,258,279	39,641	5.4
2014	6,719,993	255,696,365	38,050	6.1
2013	6,624,617	242,181,504	36,558	7.0
2012	6,549,634	236,220,305	36,066	7.7
2011	6,467,163	225,838,885	34,921	8.5
2010	6,408,312	215,052,605	33,558	9.6
2009	6,343,154	214,058,229	33,746	10.6
2008	6,280,362	224,317,885	35,717	7.8
2007	6,167,681	220,503,346	35,751	4.2

- (1) These are midyear population estimates of the U.S. Bureau of the Census.  
(2) Per capita personal income is total personal income divided by total midyear population estimates of the U.S. Bureau of the Census.  
(3) Population and personal income estimates were revised to reflect revisions made by the U.S. Bureau of Economic Analysis.  
(4) Unemployment rates were revised to reflect revisions made by the Office of Employment and Population Statistics.

Sources: U.S. Bureau of Economic Analysis (for population, personal income, and per capita personal income figures).  
U.S. Bureau of the Census (also for population).  
Office of Employment and Population Statistics at Arizona Department of Administration (for unemployment rate).

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STATE OF ARIZONA  
SCHEDULE 23  
**PRINCIPAL EMPLOYERS**  
CURRENT YEAR AND NINE YEARS AGO

Employer	Calendar Year Ended December 31, 2016			Calendar Year Ended December 31, 2007		
	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank (1)	Percentage of Total State Employment
State of Arizona	42,687	1	1.32 %	50,079	1	1.65 %
Banner Health	40,226	2	1.24	17,020	3	0.56
Wal-Mart Stores, Inc.	34,350	3	1.06	30,174	2	1.00
Fry's Food Stores	18,870	4	0.58	11,780	7	0.39
Wells Fargo	14,860	5	0.46	14,000	6	0.46
City of Phoenix	14,421	6	0.44	14,453	4	0.48
U.S. Postal Service	13,509	7	0.42	11,000	9	0.36
Intel Corp.	11,000	8	0.34	-	-	-
Dignity Health	10,584	9	0.33	-	-	-
HonorHealth	10,500	10	0.32	-	-	-
Maricopa County	-	-	-	14,057	5	0.46
Raytheon Co.	-	-	-	11,184	8	0.35
	<u>211,007</u>		<u>6.51 %</u>	<u>173,747</u>		<u>5.71 %</u>

(1) The 10th rank is not available.

Source: Phoenix Business Journal, Book of Lists 2017 and 2008 for employers.

STATE OF ARIZONA  
SCHEDULE 24  
**STATE EMPLOYEES BY FUNCTION (1)**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2017

	Fiscal Year					
	2017	2016	2015	2014	2013	2012
<b>FULL-TIME EQUIVALENT EMPLOYEES</b>						
General government:						
Lottery	98.8	98.8	98.8	98.8	97.8	104.0
Arizona State Retirement System	250.9	250.9	246.9	246.9	233.9	236.0
Department of Revenue	880.8	880.8	880.8	861.8	860.3	935.0
All other	2,280.4	2,331.6	2,308.6	2,229.6	2,214.4	2,427.6
Health and welfare:						
Department of Economic Security	4,218.0	4,147.7	3,882.6	5,654.1	5,453.5	3,726.0
Department of Child Safety	3,057.1	3,057.1	3,045.1	-	-	-
Arizona Health Care Cost Containment System	2,326.3	2,214.3	2,208.3	2,217.3	2,217.3	1,407.3
Department of Health Services	1,036.5	1,176.7	1,176.7	1,176.7	1,176.7	1,513.3
All other	961.6	961.6	949.6	946.6	946.6	1,098.5
Inspection and regulation	1,651.4	1,656.4	1,650.4	1,643.9	1,649.8	1,801.2
Education:						
Universities	16,721.0	15,635.7	15,635.7	15,607.7	15,478.7	16,964.2
All other	843.9	843.9	840.9	838.9	834.4	886.5
Protection and safety:						
Department of Corrections	9,540.0	9,534.0	9,534.0	9,384.0	10,118.2	10,015.2
Department of Juvenile Corrections	738.5	738.5	738.5	738.5	738.5	1,001.7
Department of Public Safety	1,908.7	1,907.7	1,907.7	1,904.7	1,903.7	2,139.8
All other	98.6	98.6	97.6	95.6	90.1	112.6
Department of Transportation	4,552.0	4,548.0	4,548.0	4,548.0	4,548.0	4,548.0
Natural resources	733.5	733.5	730.5	716.5	716.5	930.2
<b>Total</b>	<b>51,898.0</b>	<b>50,815.8</b>	<b>50,480.7</b>	<b>48,909.6</b>	<b>49,278.4</b>	<b>49,847.1</b>

(1) Full-time equivalent employees are categorized by the function of government that their respective agency generally serves. Information is not available to distinguish between governmental, business-type, or fiduciary activities.

(2) The change in fiscal year 2015 full-time equivalent employees was primarily due to the result of a division within the Department of Economic Security being established as the Department of Child Safety.

Source: The Executive Budget (Detail). Includes only those positions funded by appropriated funds approved in the Executive Budget.

Fiscal Year

2011	2010	2009	2008
104.0	104.0	110.0	110.0
236.0	236.0	236.0	235.0
935.0	863.0	1,164.0	1,164.0
2,646.5	2,746.5	2,989.2	2,999.2
3,726.0	4,201.0	4,201.0	4,099.2
-	-	-	-
1,423.0	1,484.0	1,635.8	1,629.0
1,513.3	1,538.6	1,699.1	1,702.1
954.5	966.5	981.5	981.5
1,807.7	1,820.7	1,943.1	1,930.1
15,754.2	15,664.5	17,353.5	17,138.8
896.0	972.4	1,003.4	1,001.4
10,015.2	9,755.9	9,932.5	9,755.9
1,001.7	1,050.7	1,163.7	1,163.7
2,081.8	2,099.8	2,114.8	2,108.8
117.9	118.4	134.9	133.9
4,548.0	4,548.0	4,748.0	4,744.0
937.2	956.7	1,009.7	1,007.7
<u>48,698.0</u>	<u>49,126.7</u>	<u>52,420.2</u>	<u>51,904.3</u>

STATE OF ARIZONA  
SCHEDULE 25  
**OPERATING INDICATORS BY FUNCTION**  
FOR THE LAST TEN FISCAL YEARS (1)  
FISCAL YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS	Fiscal Year						
	2017	2016	2015	2014	2013	2012	2011
<b>General government:</b>							
Number of tax returns received (in millions)	6.0	5.9	5.7	5.7	5.5	5.4	5.4
<b>Health and welfare:</b>							
Arizona Health Care Cost Containment System membership (2)	1,922,724	1,849,578	1,709,550	1,508,690	1,318,650	1,314,210	1,392,810
Average monthly number of recipients of temporary assistance for needy families	N/A	22,171	27,272	32,888	39,050	39,194	44,842
Average monthly number of persons receiving food stamp benefits	N/A	980,536	1,027,845	1,070,674	1,116,068	1,123,068	1,049,522
<b>Inspection and regulation:</b>							
<b>Nonfatal occupational injuries and illnesses:</b>							
Total recordable cases (in thousands) (3)	64.4	65.0	65.4	70.6	66.5	67.9	66.4
Incident rate per 100 full-time workers (3)	3.1	3.1	3.2	3.5	3.4	3.5	3.5
<b>Education:</b>							
Public school enrollment, grades K-12 (4)	1,110,425	1,105,592	1,098,701	1,084,276	1,077,703	1,066,740	1,062,200
<b>Protection and safety:</b>							
Number of miles patrolled by the Highway Patrol	18,771,511	19,843,962	19,280,016	19,222,811	18,914,572	19,465,944	19,953,766
State prison adult inmate population	42,200	42,902	42,611	41,773	40,273	39,877	40,181
<b>Transportation:</b>							
Number of registered vehicles (5)	8,247,514	7,970,946	7,694,309	7,453,046	7,180,797	6,823,906	6,839,659
Number of driver licenses issued (6)	5,165,719	5,083,085	4,979,520	1,188,903	1,159,695	1,184,630	1,196,675
<b>Natural resources:</b>							
Game and Fish Department's license and tag sales (7)	N/A	524,781	726,285	822,923	848,617	815,488	826,385
<b>Universities:</b>							
University full-time equivalent students (8)	165,536	158,681	148,819	141,264	136,884	134,051	129,653
<b>Unemployment compensation:</b>							
Number of initial unemployment claims filed	223,084	223,141	229,770	257,951	261,418	288,097	311,472
<b>Industrial Commission special fund:</b>							
No-insurance awards issued	1,112	1,982	1,599	1,303	1,618	1,365	882
Number of vocational rehabilitation awards issued	65	111	125	170	136	125	132
<b>Lottery:</b>							
Total lottery sales (in millions)	\$ 852.0	\$ 870.9	\$ 750.0	\$ 723.9	\$ 692.9	\$ 646.7	\$ 583.5
<b>Other business-type activities:</b>							
Arizona Health Care Cost Containment System's Healthcare Group membership (9)	-	-	-	-	6,370	7,080	8,260

N/A = Not available

- (1) Some figures may represent time periods other than a fiscal year (such as an academic or calendar year), as indicated in the notes below.
- (2) Approximate number of members enrolled as of June 1. Excludes membership in the Healthcare Group, which is listed separately as other business-type activities, beginning in fiscal year 2002.
- (3) Numbers represent total recordable cases and incident rates for the calendar year ended December 31. The fiscal years above contain data for the calendar year that ends during that fiscal year. For example, fiscal year 2017 contains data for the calendar year ending December 31, 2016. 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 2017 contains data from the October 1, 2016 enrollment figures. Starting with the 2008-09 school year, due to federal requirements, new business rules were used to calculate enrollment, so that counts are unduplicated. Prior to this, the counts are not unduplicated counts; concurrently enrolled students are counted as having an active membership in each school. Also, there was a change in data collection in 2003. From 2003 to 2008, concurrent enrollments in technology schools are included, which may additionally overstate aggregated enrollment figures.
- (5) Count represents the total number of vehicles registered as of the end of the fiscal year.
- (6) Through fiscal year 2014, count represents the number of driver licenses issued during that fiscal year, beginning July 1 and ending June 30. Beginning fiscal year 2015, count represents the total number of driver licenses.
- (7) 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 2017 contains data for the calendar year ending December 31, 2016. Beginning fiscal year 2016, total number of tag sales was not available.
- (8) 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 2017 contains data for the fall 2016 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.
- (9) Approximate number of members enrolled as of June 1. Healthcare Group ceased operations on December 31, 2013.

Sources: The State Departments of Transportation, Public Safety, Corrections, Education, Game and Fish, Economic Security, Revenue, the Industrial Commission of Arizona, Arizona Lottery, Arizona Health Care Cost Containment System, Arizona Board of Regents, and the U.S. Department of Labor.

Fiscal Year		
2010	2009	2008
5.2	5.7	5.6
1,392,420	1,282,910	1,136,585
82,127	83,969	80,221
986,413	752,772	600,549
75.2	84.0	101.8
3.7	3.9	4.6
1,068,987	1,062,618	1,132,963
21,275,292	21,987,920	21,881,034
40,477	39,628	38,897
6,740,536	6,692,834	6,733,610
1,241,977	1,246,358	1,200,227
874,442	874,363	896,143
122,734	118,743	113,092
363,189	396,755	226,772
1,781	2,244	2,748
128	103	118
\$ 551.5	\$ 484.5	\$ 472.9
10,760	14,560	21,646

STATE OF ARIZONA  
 SCHEDULE 26  
**CAPITAL ASSET STATISTICS BY FUNCTION**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2017

<b><u>FUNCTIONS/PROGRAMS</u></b>	Fiscal Year						
	2017	2016	2015	2014	2013	2012	2011
Protection and safety:							
Number of adult prison facilities (2)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (1)	6,780	6,822	6,800	6,800	6,751	6,751	6,722
Number of bridges (1)	4,810	4,858	4,798	4,787	4,754	4,754	4,741
Natural resources:							
State Trust acres	9,215,795	9,216,213	9,217,704	9,223,617	9,223,873	9,302,256	9,252,495
Universities:							
Number of facilities (3)	1,267	1,268	1,258	1,212	1,705	1,711	1,740
Gross square feet (in thousands) (3)	47,437	44,665	46,054	44,658	41,141	39,933	37,967

Note: No capital asset indicators are available for the general government, health and welfare, inspection and regulation, education, and other business-type activity functions.

- (1) These are the number of center lane miles and bridges that the Arizona Department of Transportation accounts for under the modified approach, which is discussed in the Required Supplementary Information portion of this report.
- (2) The Arizona Department of Corrections also contracts with private prison facilities to provide custody and treatment.
- (3) In addition to academic/support facilities, auxiliary enterprise facilities are also reported. These would include essentially self-supporting entities, such as residence halls and parking structures.

Sources: The State Departments of Transportation, Land, Corrections, and the Universities.



Fiscal Year		
2010	2009	2008
10	10	10
6,789	6,753	6,785
4,700	4,648	4,637
9,258,071	9,259,296	9,260,253
1,737	1,670	1,669
37,589	37,186	36,000

## ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the Department of Administration, General Accounting Office, Financial Reporting Section:

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Special acknowledgment goes to:

All fiscal and accounting personnel throughout the Arizona State government, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.