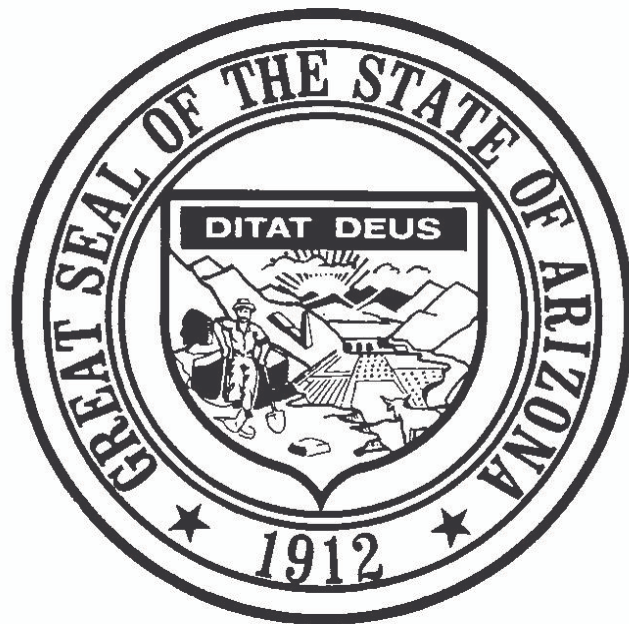
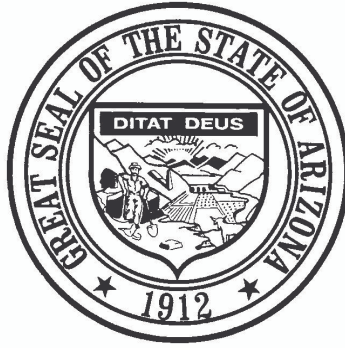


STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2018



Douglas A. Ducey
GOVERNOR



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



STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

INTRODUCTORY SECTION

(Not Covered by the Independent Auditors' Report)

	Page
Letter of Transmittal.....	1
Certificate of Achievement for Excellence in Financial Reporting.....	7
Arizona State Government Organization.....	8
Principal State Officials.....	9

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	15
-------------------------------------------	----

MANAGEMENT'S DISCUSSION AND ANALYSIS	21
---------------------------------------------------	----

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements:

Statement of Net Position.....	37
Universities - Affiliated Component Units - Statement of Financial Position.....	41
Statement of Activities.....	42
Universities - Affiliated Component Units - Statement of Activities.....	44

Governmental Funds Financial Statements:

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

Proprietary Funds Financial Statements:

Statement of Net Position.....	50
Statement of Revenues, Expenses and Changes in Fund Net Position.....	52
Statement of Cash Flows.....	54

Fiduciary Funds Financial Statements:

Statement of Fiduciary Net Position.....	56
Statement of Changes in Fiduciary Net Position.....	57

Component Units Financial Statements:

Combining Statement of Net Position.....	58
Combining Statement of Activities.....	60

Universities - Affiliated Component Units Financial Statements:

Combining Statement of Financial Position.....	62
Combining Statement of Activities.....	63

Notes to the Financial Statements	64
------------------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule, Expenditures - General Fund.....	148
Budgetary Comparison Schedule, Expenditures - Transportation and Aviation Planning, Highway Maintenance and Safety Fund.....	162
Notes to Required Supplementary Information - Budgetary Comparison Schedules.....	163
Infrastructure Assets.....	165
Schedule of the State's Proportionate Share of the Net Pension Liability - Arizona State Retirement System...	169
Schedule of the State's Proportionate Share of the Net Pension Liability - Elected Officials' Retirement Plan..	170

STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION - CONTINUED

	Page
Schedule of the State's Proportionate Share of the Net Pension Liability, as a Nonemployer Contributing Entity - Elected Officials' Retirement Plan.....	170
Schedule of Changes in the State's Net Pension Liability and Related Ratios - PSPRS Department of Public Safety.....	171
Schedule of Changes in the State's Net Pension Liability and Related Ratios - CORP Department of Corrections.....	172
Schedule of State Pension Contributions - Arizona State Retirement System.....	173
Schedule of State Pension Contributions - Elected Officials' Retirement Plan.....	174
Schedule of State Pension Contributions, as a Nonemployer Contributing Entity - Elected Officials' Retirement Plan.....	174
Schedule of State Pension Contributions - PSPRS Department of Public Safety.....	175
Schedule of State Pension Contributions - CORP Department of Corrections.....	175
Notes to Required Supplementary Information - Pension Plan Schedules.....	176
Schedule of Changes in the State's Total OPEB Liability and Related Ratios - Arizona Department of Administration.....	177

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

Non-major Governmental Funds:

Combining Balance Sheet.....	182
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	183

Non-major Special Revenue Funds:

Combining Balance Sheet.....	186
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	188
Budgetary Comparison Schedule, Expenditures.....	190

Land Endowments Fund:

Budgetary Comparison Schedule, Expenditures.....	198
--------------------------------------------------	-----

Non-major Debt Service Funds:

Combining Balance Sheet.....	200
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	201

Non-major Capital Projects Fund:

Combining Balance Sheet.....	204
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	205

Non-major Proprietary Funds:

Non-major Enterprise Funds:

Combining Statement of Net Position.....	208
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	212
Combining Statement of Cash Flows.....	214

Internal Service Funds:

Combining Statement of Net Position.....	220
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	222
Combining Statement of Cash Flows.....	224

Fiduciary Funds:

Pension and Other Employee Benefit Trust Funds:

Combining Statement of Fiduciary Net Position.....	228
Combining Statement of Changes in Fiduciary Net Position.....	230

STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION - CONCLUDED

	Page
<i>Investment Trust Funds:</i>	
Combining Statement of Fiduciary Net Position	234
Combining Statement of Changes in Fiduciary Net Position	236
<i>Agency Funds:</i>	
Combining Statement of Assets and Liabilities	241
Combining Statement of Changes in Assets and Liabilities	242
Non-major Component Units:	
Combining Statement of Net Position	246
Combining Statement of Activities	248
Non-major Universities - Affiliated Component Units:	
Combining Statement of Financial Position	252
Combining Statement of Activities	254

STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)

Financial Trends:

Schedule 1 - Net Position by Component for the Last Ten Fiscal Years	260
Schedule 2 - Changes in Net Position for the Last Ten Fiscal Years	262
Schedule 3 - Fund Balances, Governmental Funds for the Last Ten Fiscal Years	266
Schedule 4 - Changes in Fund Balances, Governmental Funds for the Last Ten Fiscal Years	268

Revenue Capacity:

Schedule 5 - Net Taxable Sales by Classification for the Last Ten Fiscal Years	272
Schedule 6 - Sales Tax Revenue Payers by Classification, Current Year and Nine Years Ago	275
Schedule 7 - Personal Income by Industry for the Last Ten Calendar Years	276
Schedule 8 - Personal Income Tax Rates for the Last Ten Calendar Years	278
Schedule 9 - Personal Income Tax Filers and Liability by Income Level for the Taxable Years 2015 and 2008	278

Debt Capacity:

Schedule 10 - Ratios of Outstanding Debt by Type for the Last Ten Fiscal Years	280
Schedule 11 - Legal Debt Margin Information, Arizona State University, for the Last Ten Fiscal Years	282
Schedule 12 - Legal Debt Margin Information, University of Arizona, for the Last Ten Fiscal Years	282
Schedule 13 - Legal Debt Margin Information, Northern Arizona University, for the Last Ten Fiscal Years	283
Schedule 14 - Pledged-Revenue Coverage, Arizona Transportation Board Highway Revenue Bonds for the Last Ten Fiscal Years	283
Schedule 15 - Pledged-Revenue Coverage, Arizona Transportation Board Transportation Excise Tax Revenue Bonds for the Last Ten Fiscal Years	284
Schedule 16 - Pledged-Revenue Coverage, School Facilities Board State School Improvement Revenue Bonds for the Last Ten Fiscal Years	284
Schedule 17 - Pledged-Revenue Coverage, School Facilities Board State School Trust Revenue Bonds for the Last Ten Fiscal Years	285
Schedule 18 - Pledged-Revenue Coverage, Lottery Revenue Bonds for the Last Eight Fiscal Years	285
Schedule 19 - Pledged-Revenue Coverage, Arizona State University Revenue Bonds for the Last Ten Fiscal Years	286
Schedule 20 - Pledged-Revenue Coverage, University of Arizona Revenue Bonds for the Last Ten Fiscal Years	286
Schedule 21 - Pledged-Revenue Coverage, Northern Arizona University Revenue Bonds for the Last Ten Fiscal Years	287

STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS (CONCLUDED)

STATISTICAL SECTION - CONCLUDED

Demographic and Economic Information:	Page
Schedule 22 - Demographic and Economic Statistics for the Last Ten Calendar Years	287
Schedule 23 - Principal Employers, Current Year and Nine Years Ago	289
Operating Information:	
Schedule 24 - State Employees by Function for the Last Ten Fiscal Years	290
Schedule 25 - Operating Indicators by Function for the Last Ten Fiscal Years	292
Schedule 26 - Capital Asset Statistics by Function for the Last Ten Fiscal Years	294

INTRODUCTORY SECTION

INTRODUCTORY SECTION



Douglas A. Ducey
Governor

Elizabeth Thorson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 403
PHOENIX, ARIZONA 85007

(602) 542-1500

March 8, 2019

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, 2018. 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

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

FINANCIAL REPORTING ENTITY OF THE STATE

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

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

ARIZONA

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

PROFILE OF THE GOVERNMENT

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

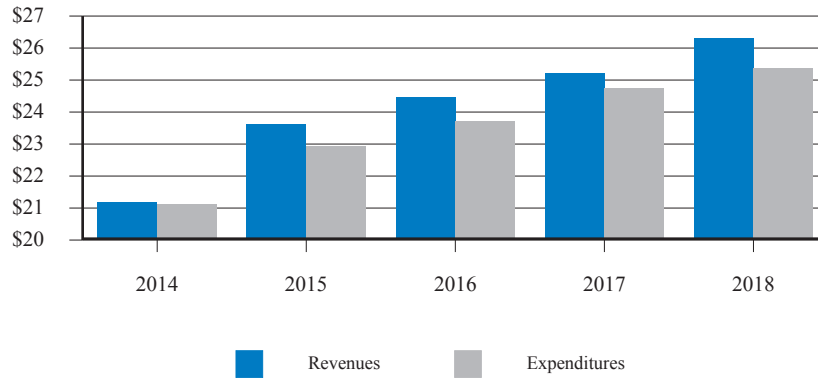
BUDGETARY CONTROLS

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.

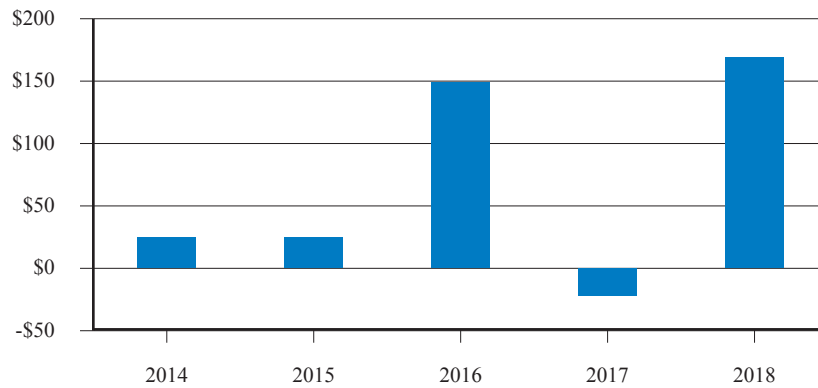
Graph 1
General Fund Revenues and Expenditures for last 5 fiscal years
(Dollars in billions)



The General Fund ended the June 30, 2018 fiscal year with a total fund balance of \$169.2 million. This compares to the previous year's total fund deficit of \$21.5 million, as restated.

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

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



ECONOMIC CONDITION AND OUTLOOK

The following economic summary is based on the Industry Employment Projections Presentation released on March 15, 2018, 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 2017 Quarter 3 to 2019 Quarter 2
- Quarterly Census of Employment and Wages 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
 - Farm employment
- Industry Projections Estimates **Exclude**:
 - Unpaid family workers
 - Active duty military service men and women

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 U.S. 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 152,968 jobs over the two-year period (2.6% annual growth)
- All eleven supersectors are projected to add jobs
- Educational and Health Services is expected to add the largest number of jobs (39,779) over the two-year period or 3.3% annualized growth
- Construction is expected to record the largest percentage gain at 5.2% annualized growth (15,554 jobs)
- Sectors with the largest expected gains are: Educational and Health Services (39,779 jobs), Professional and Business Services (22,391 jobs), Leisure and Hospitality (19,547 jobs), Construction (15,554 jobs), and Trade, Transportation and Utilities (15,312 jobs)

The following table summarizes Arizona's Major Industry Groups' employment growth rates and shares information:

Arizona Major Industry Groups (2017 & 2019 Employment Share and Compound Annual Growth Rate)

	2017(a)	2019(b)	2017 Q3 - 2019 Q2(c)
Accommodation and Food Services	278,741	294,535	2.8%
Administrative and Support and Waste Management and Remediation	241,353	252,126	2.2%
Agriculture, Forestry, Fishing, and Hunting	40,080	41,584	1.9%
Arts, Entertainment, and Recreation	62,238	65,991	3.0%
Construction	145,225	160,779	5.2%
Educational Services	219,616	223,858	1.0%
Finance and Insurance	154,697	166,889	3.9%
Government	158,708	161,432	0.9%
Health Care and Social Assistance	379,480	415,017	4.6%
Information	47,091	48,103	1.1%
Management of Companies and Enterprises	31,195	32,148	1.5%
Manufacturing	161,078	168,963	2.4%
Mining	11,666	12,002	1.4%
Other Services (Except Government)	92,457	95,185	1.5%
Professional, Scientific, and Technical Services	142,333	152,998	3.7%
Real Estate and Rental and Leasing	50,933	52,719	1.7%
Retail Trade	326,534	333,329	1.0%
Transportation and Warehousing	84,229	90,654	3.7%
Utilities	22,747	23,031	0.6%
Wholesale Trade	94,343	96,151	1.0%

- a) Estimated - Employment Share
- b) Projected - Employment Share
- c) Forecast - Compound Annual Growth Rate

MAJOR INITIATIVES

The Major Initiatives for the year ended June 30, 2018, were as follows:

- The Department of Education received an increase of \$141 million, which includes \$38 million for a new Results-Based Funding (RBF) program that provides additional per pupil payments to schools that achieve high results in AzMERIT, a statewide achievement test. The RBF is intended to enhance, expand, or replicate high performing schools with the majority of funding being used for increasing teacher salaries or professional development. The Department of Education also received an additional \$34 million for teacher salary increases and \$8 million for a new early literacy program that funds K-3 literacy programs and full-day Kindergarten at schools with at least a 90% free and reduced lunch population.
- The School Facilities Board received \$64 million for the construction of six new schools or expansions in Chandler, Vail, and Queen Creek. Additionally, the Board received \$34 million for major maintenance of facilities.
- An investment of \$56 million was made for large-scale automation projects, including \$11 million as the next installment for the Department of Child Safety's replacement of the Children's Informational Library and Data Source; the project is expected to be completed in fiscal year 2021.
- The Department of Economic Security received a funding increase of \$48 million. Of that amount, \$35 million was attributed to higher personnel costs of Division of Developmental Disabilities (DDD) providers associated with Proposition 206, the minimum wage and sick leave initiative passed by voters; \$19 million for DDD enrollment growth and a capitation rate increase. In addition, the fiscal year 2018 budget included \$2 million for the Arizona Early Intervention Program, which provides no-charge evaluations for children up to age 3 when there are concerns of developmental delay.
- Local and county entities received \$30 million to offset the annual transfer from the Highway User Revenue Fund (HURF) to the Department of Public Safety to fund a portion of the Highway Patrol Division. The HURF provides monies to State and local governments to cover road maintenance and construction.

- The Elderly and Physically Disabled Program housed in the Arizona Health Care Cost Containment System received an increase of more than \$9 million to address Proposition 206 minimum wage increases costs.
- To assist with recidivism reduction efforts, there was an increase of \$517,900 for the Department of Corrections to fund an additional reentry counselor and six substance abuse counselors in the Maricopa Reentry Center.
- Arizona's public universities' funding increased by \$6 million to cover operations and capital expenditures for educating resident students.
- The Arizona Teachers Academy was started to create more opportunities for students to enter the teaching profession with less debt at graduation, and to keep more teachers in Arizona. Students who are eligible to participate in the program are given a tuition waiver for every year they agree to teach in Arizona. As of June 2018, the academy has more than 200 students enrolled at the 3 public universities.
- A \$1 billion infrastructure bonding plan was instituted to help the three public universities in the state continue to grow their campuses, and take care of building maintenance needs. An ongoing appropriation of \$27 million is scheduled to begin in fiscal year 2019 through fiscal year 2043. The universities plan to invest in a number of research facilities with the bond funding that has been appropriated.

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, 2017. This was the fourteenth 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.

Elizabeth Thorson
Interim Director

D. Clark Partridge
State Comptroller



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

State of Arizona

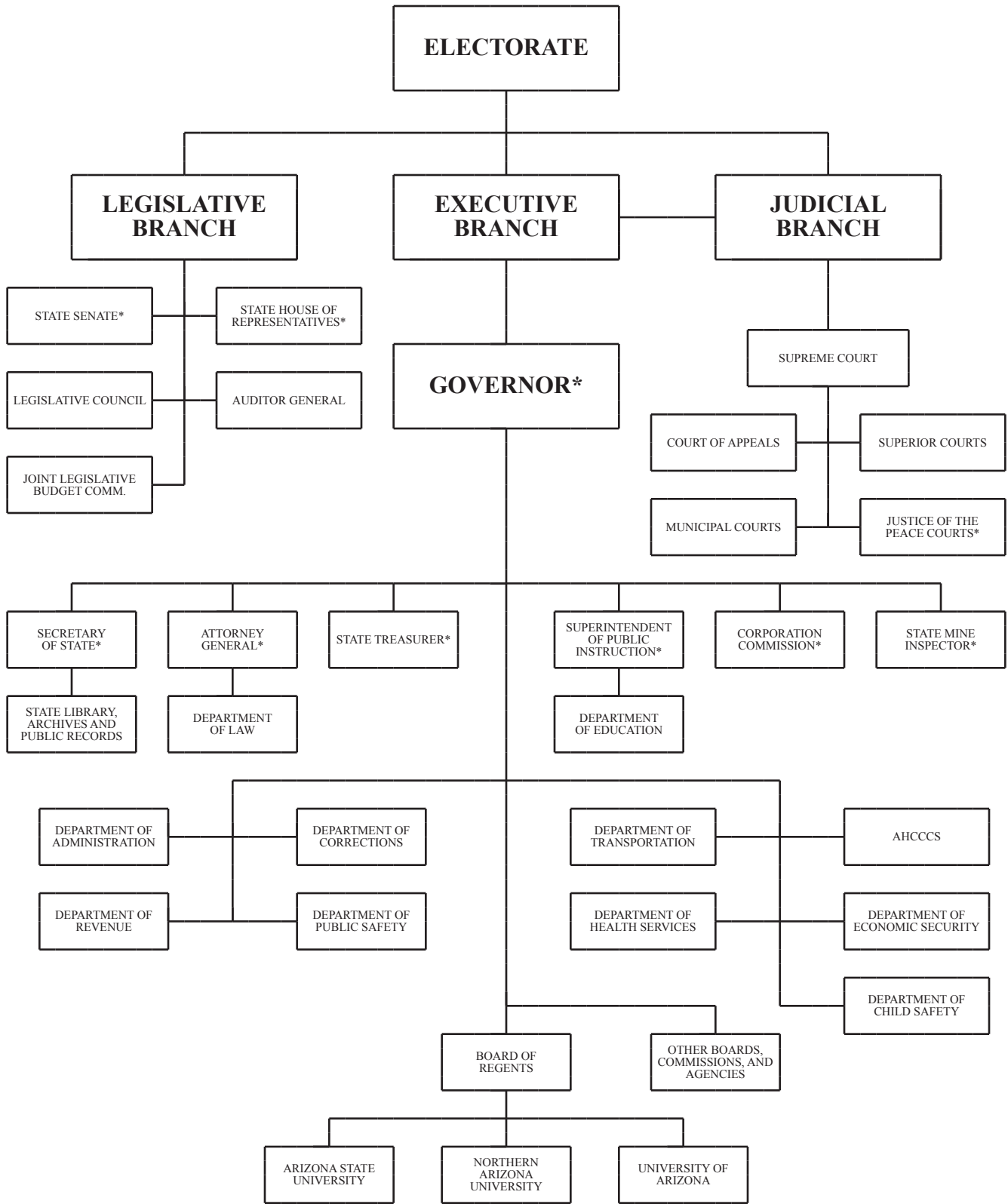
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

ARIZONA STATE GOVERNMENT ORGANIZATION



*ELECTED OFFICIALS

STATE OF ARIZONA
PRINCIPAL STATE OFFICIALS
JUNE 30, 2018

ELECTED OFFICIALS - as of June 30, 2018

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

Diane Douglas, Superintendent of Public Instruction
Tom Forese, Chairman - Corporation Commission
Bob Burns, Commissioner - Corporation Commission
Andy Tobin, Commissioner - Corporation Commission
Boyd Dunn, Commissioner - Corporation Commission
Justin Olson, Commissioner - Corporation Commission

APPOINTED OFFICIALS - as of June 30, 2018

Executive Officials

Gilbert Davidson, Chief Operating Officer and Interim
Director - Department of Administration
Charles L. Ryan, Director - Department of Corrections
Michael Traylor, Director - Department of Economic
Security
Gregory A. McKay, Director - Department of Child Safety
David Briant, Director - Department of Revenue
Frank Milstead, Director - Department of Public Safety
Dr. Cara M. Christ, Director - Department of Health Services
Thomas J. Betlach, Director - Arizona Health Care Cost
Containment System
John S. 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
Lindsey Perry, CPA, CFE, 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

ELECTED OFFICIALS - as of March 8, 2019

Douglas A. Ducey, Governor
Senator Karen Fann, President of the Senate
Representative Russell Bowers, Speaker of the House
Katie Hobbs, Secretary of State
Mark Brnovich, Attorney General
Joe Hart, State Mine Inspector
Kimberly Yee, State Treasurer

Kathy Hoffman, Superintendent of Public Instruction
Bob Burns, Chairman - Corporation Commission
Andy Tobin, Commissioner - Corporation Commission
Boyd Dunn, Commissioner - Corporation Commission
Sandra Kennedy, Commissioner - Corporation Commission
Justin Olson, Commissioner - Corporation Commission

APPOINTED OFFICIALS - as of March 8, 2019

Executive Officials

Elizabeth Thorson, Interim Director - Department of
Administration
Charles L. Ryan, Director - Department of Corrections
Michael Traylor, Director - Department of Economic
Security
Gregory A. McKay, Director - Department of Child Safety
Carlton Woodruff, Interim Director - Department of Revenue
Frank Milstead, Director - Department of Public Safety
Dr. Cara M. Christ, Director - Department of Health Services
Jami Snyder, Director - Arizona Health Care Cost
Containment System
John S. Halikowski, Director - Department of Transportation

Judicial Officials

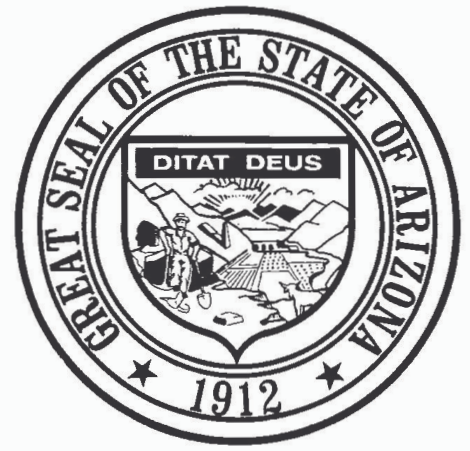
Scott Bales, Chief Justice - Supreme Court

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Michael E. Braun, Executive Director - Legislative Council
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Lindsey Perry, CPA, CFE, 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

INDEPENDENT
AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT



MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

The Honorable Doug Ducey, Governor
State of Arizona

The Honorable Karen Fann, President
Arizona State Senate

The Honorable Russell "Rusty" Bowers, 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, 2018, 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 systems and 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 units affected	Assets and deferred outflows of resources	Revenues, additions, and other financing sources
Government-wide statements		
Governmental activities		
Arizona Department of Transportation	62.00%	10.91%
Arizona Health Care Cost Containment System	4.77%	35.05%
Early Childhood Development and Health Board	1.00%	0.42%
Business-type activities		
Arizona Correctional Industries	0.28%	0.66%
Arizona Department of Transportation	0.27%	0.01%
Arizona State Lottery	0.81%	14.58%
Aggregate discretely presented component units	97.34%	92.13%
Fund statements		
Major fund—General Fund		
Arizona Health Care Cost Containment System	40.21%	40.59%
Major fund—Transportation and Aviation Planning, Highway Maintenance and Safety Fund		
Arizona Department of Transportation	100.00%	100.00%
Aggregate remaining fund information		
Arizona Correctional Industries	0.05%	0.33%
Arizona Department of Transportation	0.23%	2.62%
Arizona Health Care Cost Containment System	0.22%	4.29%
Arizona State Lottery	0.15%	7.21%
Arizona State Retirement System	68.84%	43.02%
Corrections Officer Retirement Plan	3.56%	2.28%
Early Childhood Development and Health Board	0.65%	1.00%
Elected Officials' Retirement Plan	0.55%	0.31%
Public Safety Personnel Retirement System	13.61%	9.32%

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 systems and 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. Of the aggregate discretely presented component units, the other auditors did not audit in accordance with *Government Auditing Standards* 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.

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, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of matter

As discussed in Note 1.Q. and Note 8 to the financial statements, for the year ended June 30, 2018, the State adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. Our opinions are not modified with respect to this matter.

As discussed in Note 8 to the financial statements, for the year ended June 30, 2018, the State restated beginning fund balance of the General Fund and net position of the other enterprise funds and business-type activities to correct misstatements in its previously issued financial statements. Our opinions are not modified with respect to this matter.

Other matters

Required supplementary information

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

Required supplementary information	Pages
Management's discussion and analysis	21 - 33
Budgetary comparison schedules	148 - 164
Infrastructure assets	165 - 168
Schedules of the State's proportionate share of the net pension liability— cost-sharing pension plans	169 - 170
Schedules of changes in the State's net pension liability and related ratios—agent pension plans	171 - 172
Schedules of State pension contributions	173 - 175
Notes to required supplementary information	176
Schedule of changes in the State's total OPEB liability and related ratios	177

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.

Lindsey Perry, CPA, CFE
Auditor General

March 8, 2019

MANAGEMENT'S
DISCUSSION
AND
ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Arizona's (the State's) financial performance, providing an overview of the activities for the fiscal year ended June 30, 2018. 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 \$27.2 billion (reported as net position). Of this amount, a deficit of \$5.5 billion exists for unrestricted net position, \$9.2 billion is restricted for specific purposes (restricted net position), and \$23.5 billion is net investment in capital assets.
- Beginning net position has been restated (reduced) by \$1.0 billion primarily as a result of implementing GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. After adjustments, the State's total net position increased in fiscal year 2018 by \$1.8 billion. Net position of governmental activities increased by \$1.4 billion, while net position of the business-type activities increased by \$411.6 million.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$8.5 billion, an increase of \$539.2 million from the beginning of the year. After accounting for non-spendable, restricted, and committed fund balances of \$5.9 billion, \$1.5 billion, and \$1.2 billion, respectively, the State's unassigned fund balance had a deficit of \$14.5 million, or (0.2%) of combined fund balances.
- The Land Endowments Fund reported fund balance at fiscal year-end of \$5.8 billion, an increase of \$250.1 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 \$411.6 million during the year. In addition, beginning net position was restated (reduced) by \$459.2 million primarily due to the implementation of GASB 75.

Long-term Debt:

- The State's total long-term primary government debt decreased during the fiscal year to \$8.9 billion, a decrease of \$492.3 million or (5%). Changes during the year included the addition of revenue bonds and certificates of participation (COPs) of \$335.0 million and \$136.0 million, respectively. Also, the State retired \$504.8 million of revenue bonds and \$409.2 million of COPs. Included within the change of long-term primary government debt are increases and decreases in net issuance premiums of \$69.8 million and \$115.3 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 37**.

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 37-39) 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 41) 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 42-43) 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 41**) and a statement of activities (**page 44**). See **pages 65-69 and 133-145** 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 182** 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 proprietary 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 and other postemployment benefits (OPEB) plans, including schedules on the State's proportionate share of the net pension liability, changes in the net pension liability and related ratios, changes in the total OPEB 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.

Required supplementary information begins on page 148 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 182 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, 2018 and 2017
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 6,387,349	\$ 5,986,883	\$ 2,200,067	\$ 2,098,043	\$ 8,587,416	\$ 8,084,926
Capital assets	24,411,378	23,733,399	5,706,158	5,379,401	30,117,536	29,112,800
Other non-current assets	7,220,397	6,805,712	3,011,258	2,957,568	10,231,655	9,763,280
Total Assets	<u>38,019,124</u>	<u>36,525,994</u>	<u>10,917,483</u>	<u>10,435,012</u>	<u>48,936,607</u>	<u>46,961,006</u>
Deferred outflows of resources	860,297	1,016,987	310,578	398,068	1,170,875	1,415,055
Current liabilities	5,018,151	4,818,837	969,732	876,041	5,987,883	5,694,878
Non-current liabilities	9,940,243	9,657,803	6,159,180	5,859,774	16,099,423	15,517,577
Total Liabilities	<u>14,958,394</u>	<u>14,476,640</u>	<u>7,128,912</u>	<u>6,735,815</u>	<u>22,087,306</u>	<u>21,212,455</u>
Deferred inflows of resources	404,702	400,593	451,916	402,452	856,618	803,045
Net position:						
Net investment in capital assets	21,486,658	20,583,563	1,994,555	1,879,901	23,481,213	22,463,464
Restricted	7,552,460	7,424,033	1,669,917	1,445,218	9,222,377	8,869,251
Unrestricted	(5,522,793)	(5,341,848)	(17,239)	369,694	(5,540,032)	(4,972,154)
Total Net Position	<u>\$ 23,516,325</u>	<u>\$ 22,665,748</u>	<u>\$ 3,647,233</u>	<u>\$ 3,694,813</u>	<u>\$ 27,163,558</u>	<u>\$ 26,360,561</u>

For the year ended June 30, 2018, the State's combined net position totaled \$27.2 billion, reflecting an increase of \$1.8 billion during the current fiscal year.

The largest portion of the State's net position (86%) represents net investment in capital assets of \$23.5 billion. Additions to land, roads, and bridges provided the majority of the governmental activities increase in net investment in capital assets of \$903.1 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 \$9.2 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 \$128.4 million is largely a result of an increase of \$288.6 million in the amount restricted by the State's Constitution for basic education funded by the Land Endowments Fund, offset by a decrease of \$92.8 million in the amount restricted for health and welfare. The business-type activities increase in restricted net position of \$224.7 million is primarily due to an increase of \$274.7 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 \$5.5 billion (20%) reported as unrestricted net position.

More detailed information regarding beginning net position restatements is on page 127.

State of Arizona-Primary Government
Changes in Net Position for Fiscal Years June 30, 2018 and 2017
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 1,302,561	\$ 1,229,794	\$ 4,398,074	\$ 4,170,205	\$ 5,700,635	\$ 5,399,999
Operating grants and contributions	14,957,252	14,732,701	1,573,533	1,488,002	16,530,785	16,220,703
Capital grants and contributions	718,794	716,455	20,699	27,368	739,493	743,823
General revenues:						
Sales taxes	7,194,123	6,775,704	75,642	72,696	7,269,765	6,848,400
Income taxes	4,946,644	4,500,902	—	—	4,946,644	4,500,902
Tobacco taxes	298,369	316,073	—	—	298,369	316,073
Property taxes	55,112	46,798	—	—	55,112	46,798
Motor vehicle and fuel taxes	1,950,380	1,875,392	—	—	1,950,380	1,875,392
Other taxes	638,988	655,363	—	—	638,988	655,363
Unrestricted investment earnings	42,463	50,009	50,825	81,363	93,288	131,372
Unrestricted grants and contributions	35,324	35,032	—	—	35,324	35,032
Gain on sale of trust land	161,953	47,503	—	—	161,953	47,503
Miscellaneous revenue	178,298	117,933	79,617	79,726	257,915	197,659
Total Revenues	<u>32,480,261</u>	<u>31,099,659</u>	<u>6,198,390</u>	<u>5,919,360</u>	<u>38,678,651</u>	<u>37,019,019</u>
Expenses:						
General government	933,641	862,738	—	—	933,641	862,738
Health and welfare	16,254,160	15,661,167	—	—	16,254,160	15,661,167
Inspection and regulation	156,149	163,416	—	—	156,149	163,416
Education	6,538,614	6,369,100	—	—	6,538,614	6,369,100
Protection and safety	1,954,842	1,662,550	—	—	1,954,842	1,662,550
Transportation	834,697	799,882	—	—	834,697	799,882
Natural resources	230,505	216,318	—	—	230,505	216,318
Intergovernmental revenue sharing	3,480,014	3,349,498	—	—	3,480,014	3,349,498
Interest on long-term debt	153,914	193,099	—	—	153,914	193,099
Universities	—	—	5,166,157	4,893,271	5,166,157	4,893,271
Other business-type activities	—	—	1,156,810	1,105,470	1,156,810	1,105,470
Total Expenses	<u>30,536,536</u>	<u>29,277,768</u>	<u>6,322,967</u>	<u>5,998,741</u>	<u>36,859,503</u>	<u>35,276,509</u>
Excess (deficiency) before contributions and transfers	1,943,725	1,821,891	(124,577)	(79,381)	1,819,148	1,742,510
Contributions to permanent endowments	—	—	5,702	3,276	5,702	3,276
Transfers	(530,492)	(529,455)	530,492	529,455	—	—
Change in Net Position	<u>1,413,233</u>	<u>1,292,436</u>	<u>411,617</u>	<u>453,350</u>	<u>1,824,850</u>	<u>1,745,786</u>
Net Position - Beginning, as restated	<u>22,103,092</u>	<u>21,373,312</u>	<u>3,235,616</u>	<u>3,241,463</u>	<u>25,338,708</u>	<u>24,614,775</u>
Net Position - Ending	<u>\$ 23,516,325</u>	<u>\$ 22,665,748</u>	<u>\$ 3,647,233</u>	<u>\$ 3,694,813</u>	<u>\$ 27,163,558</u>	<u>\$ 26,360,561</u>

For additional information on the difference between fiscal year 2017 ending net position and fiscal year 2018 beginning net position, see Note 8.B.

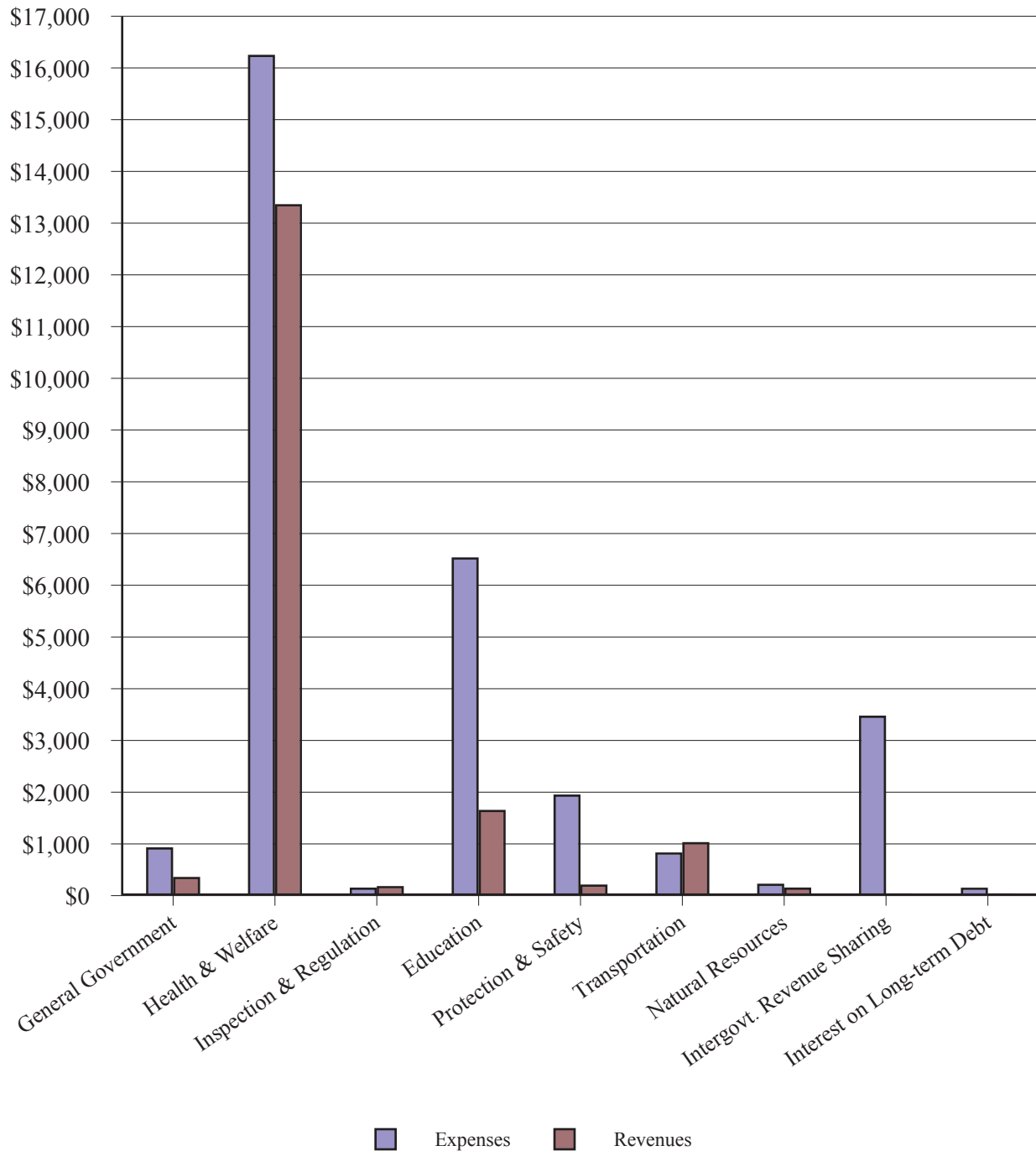
Change in Net Position

Governmental Activities - Net Position increased by \$1.4 billion from fiscal year 2017, or a 6% increase from fiscal year 2017. Reported sales and income tax revenues increased by \$418.4 million, or 6% and \$445.7 million, or 10%, from fiscal year 2017, respectively. The increase in tax collections generally reflects increased economic activity in the State during fiscal year 2018. Net taxable sales increased by 7% from fiscal year 2017, resulting in the increased reported sales tax revenue. The largest increases in net taxable sales during fiscal year 2018 were in retail, contracting, and restaurants and bars. The increase in income tax revenue for the State during fiscal year 2018 reflects increases in withholding and individual tax collections. During fiscal year 2018, the gain on sale of trust land increased by \$114.5 million, or 241%. Contributing to this increase was one of the largest-ever successful bids of \$79.0 million on the sale of State trust land. In addition, operating grants and contributions increased by \$224.6 million (2%) over fiscal year 2017. This increase is mostly attributable to the rise in federal and local government grants received by the Arizona Health Care Cost Containment System (AHCCCS) as a result of the increase in expenditures incurred due to utilization, capitation rate increases, the addition of the behavioral health federal and local government grants addressing opioid substance use disorders, and enrollment growth for Children's Health Insurance Program. The increase in operating grants and contributions discussed above was offset by a decrease of \$186.6 million in the fair value of the Permanent Fund investment portfolio from fiscal year 2017. The increase in health and welfare expenses of \$593.0 million (4%) resulted mostly from the increase in expenses for AHCCCS programs, as indicated above. The increase in education expenses of \$169.5 million (3%) was largely due to increased enrollment growth and inflation. Expenses also increased by \$292.3 million (23%) for protection and safety, primarily as a result of increased pension expenses due to a court decision for the Corrections Officer Retirement Plan that adjusted the cost-of-living benefits for retirees who became members before July 20, 2011.

A comparison of the net cost (income) of services by function for the State's governmental activities is shown below for fiscal years 2017 and 2018. 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	
	2018	2017	2018	2017
Functions/Programs:				
General government	\$ 933,641	\$ 862,738	\$ 571,416	\$ 522,576
Health and welfare	16,254,160	15,661,167	2,887,092	2,766,590
Inspection and regulation	156,149	163,416	(28,385)	(25,448)
Education	6,538,614	6,369,100	4,880,778	4,547,226
Protection and safety	1,954,842	1,662,550	1,739,733	1,407,098
Transportation	834,697	799,882	(200,091)	(222,178)
Natural resources	230,505	216,318	73,458	60,357
Intergovernmental revenue sharing	3,480,014	3,349,498	3,480,014	3,349,498
Interest on long-term debt	153,914	193,099	153,914	193,099
Total Governmental Activities	\$ 30,536,536	\$ 29,277,768	\$ 13,557,929	\$ 12,598,818

**Expenses and Program Revenues
Governmental Activities for Fiscal Year 2018
(in millions of dollars)**



Business-type Activities - Net Position increased by \$411.6 million from fiscal year 2017, or 13%. This increase is primarily due to increases in net position for the Universities and the Unemployment Compensation Fund of \$130.4 million and \$274.7 million, respectively. Non-operating revenues and transfers from the General Fund more than offset the Universities' operating loss of \$1.3 billion. The Universities' operating revenues increased by \$124.6 million over fiscal year 2017 primarily due to an increase in net student tuition and fees revenue, largely as a result of increased enrollment and modest increases in nonresident tuition and fee rates. Another increase included an increase in intergovernmental revenue, both operating and non-operating. These increases were offset by the Universities' rise in operating expenses of \$301.1 million over fiscal year 2017 primarily due

to increases in expenses for instruction, academic support, and scholarships and fellowships and student services. Also, the Unemployment Compensation Fund's unemployment assessment revenue increased by \$8.8 million and cost of sales and benefits decreased by \$25.2 million, as compared to the prior fiscal year, due to the decline in unemployment levels. In addition, unemployment assessment revenue of \$504.8 million was higher than the cost of sales and benefits of \$246.3 million during fiscal year 2018.

A comparison of the net cost (income) of services by function for the State's business-type activities is shown below for the fiscal years 2017 and 2018. Net cost (income) is the total cost less revenues generated by the activities and shows the financial burden placed upon the State's taxpayers by each of these functions.

Business-type Activities
(expressed in thousands)

	Total Cost of Services		Net Cost (Income) of Services	
	2018	2017	2018	2017
Functions/Programs:				
Universities	\$ 5,166,157	\$ 4,893,271	\$ 790,392	\$ 682,202
Other	1,156,810	1,105,470	(459,731)	(369,036)
Total Business-type Activities	\$ 6,322,967	\$ 5,998,741	\$ 330,661	\$ 313,166

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.

General Fund

The General Fund is the chief operating fund of the State. At June 30, 2018, the non-spendable, restricted and committed fund balances were: \$11.6 million, \$44.4 million, and \$113.2 million, respectively.

The fund balance of the State's General Fund increased \$190.7 million during the fiscal year. Revenues exceeded expenditures by \$949.3 million, before other financing sources and uses. However, other financing sources and uses offset this excess by \$758.6 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 \$1.0 billion (4%) and expenditures increased by \$619.7 million (3%) from fiscal year 2017. Primary reasons for increases in fund balance during the fiscal year are increased collections of sales and income taxes and increased intergovernmental revenue, including a rise in federal and local government funding received by AHCCCS. 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. 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 \$47.8 million during fiscal year 2018. Although revenues exceeded expenditures by \$269.7 million, transfers to non-major governmental funds of \$253.0 million, to primarily pay debt service, largely offset this excess. Overall, revenue increased by \$155.4 million (5%), however, expenditures also increased by \$232.6 million (9%), 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 2018, the Land Endowments Fund total fund balance increased \$250.1 million. Endowment investments increased \$217.7 million at fiscal year end, mainly due to a net increase in the fair value of investments of \$382.0 million, receipts from land sales of \$119.1 million, and realized gains of \$105.4 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 \$1.8 billion net increase in appropriations for the General Fund. Some of the significant changes in the General Fund appropriations were:

1. \$528.9 million increase due to prior fiscal year obligations that were paid in the current fiscal year per A.R.S. § 35-191.
2. \$981.9 million increase to the Department of Education's original budget is primarily due to the basic state aid deferred payment from fiscal year 2017, which was appropriated as a supplemental appropriation in the fiscal year 2018 budget, as well as additional state aid funding.
3. \$91.2 million increase to the AHCCCS' original budget is primarily due to supplemental appropriation increases for voluntary payments from political subdivisions related to disproportionate share hospital and graduate medical education and for Proposition 204 services, to account for increased tobacco settlement agreement revenue over the original appropriated funding source utilized to fund program expenditures.
4. The \$53.6 million increase to the Universities' original budget is primarily due to one-time funding increases, operating lump sum appropriations, and for lease-purchase payments for research infrastructure facilities.
5. The \$39.0 million increase to the General Accounting Office's budget is primarily due to General Fund transfers for the New School Facilities Fund, the Elected Officials' Retirement Plan, and the Substance Use Disorder Services Fund.
6. The \$27.3 million increase to the Department of Administration's original budget is primarily due to supplemental appropriation increases for various purposes such as improving the security, privacy, and risk of the State's IT systems, the Department of Child Safety's replacement of the Children's Information Library and Data Source System, and an update of the Department of Public Safety's Microwave Backbone Statewide Communication System.
7. The \$27.2 million increase to the School Facilities Board's (SFB) original budget is primarily for building renewal grant funding.

The actual expenditures were less than the final budget by \$1.2 billion. Of this amount, \$156.8 million will continue as legislative multiple fiscal year spending authority for fiscal years 2019 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 148-161 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, 2018 totaled \$30.1 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 3%, 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 \$485.6 million.

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

- The ADOT started or completed roads and bridges totaling \$775.4 million during the fiscal year.
- The Universities' additions to capital assets totaled \$734.7 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, 2018 and 2017 are presented below (expressed in thousands):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 3,653,652	\$ 3,561,056	\$ 271,323	\$ 253,185	\$ 3,924,975	\$ 3,814,241
Buildings	2,500,455	2,493,812	6,769,269	6,367,954	9,269,724	8,861,766
Improvements other than buildings	191,861	187,826	15,739	15,458	207,600	203,284
Equipment	944,679	935,461	1,619,251	1,755,029	2,563,930	2,690,490
Software and other intangibles	401,994	345,747	138,205	138,205	540,199	483,952
Collections (non-depreciable)	—	—	21,574	21,368	21,574	21,368
Infrastructure	16,330,422	16,216,907	602,869	574,485	16,933,291	16,791,392
Construction in progress	2,468,637	1,960,775	582,438	528,026	3,051,075	2,488,801
Development in progress	37,790	53,854	88,190	70,322	125,980	124,176
Total Capital Assets	26,529,490	25,755,438	10,108,858	9,724,032	36,638,348	35,479,470
Less: accumulated depreciation	(2,118,112)	(2,022,039)	(4,402,700)	(4,344,631)	(6,520,812)	(6,366,670)
Total Capital Assets, Net	\$ 24,411,378	\$ 23,733,399	\$ 5,706,158	\$ 5,379,401	\$ 30,117,536	\$ 29,112,800

For more detail on beginning net position restatements involving capital assets, see Note 8.B.

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 6,775 center lane miles of roads (21,532 travel lane miles) and 4,855 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 3.57 was achieved for fiscal year 2018.

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 1.4% of the bridges were so classified for fiscal year 2018.

The State's most notable and largest highway construction project to date began in 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. Right-of-way cost estimates, not contractually committed, brings the total project cost estimate to \$2.0 billion, not including financing costs. The project's completion date is anticipated to occur in late 2019. Actual costs incurred by the ADOT through June 30, 2018 for this project are \$1.0 billion.

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

Long-term debt:

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

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

- The ADOT issued grant anticipation notes for \$62.6 million to fund I-40 and I-10 projects in the ADOT's 5-Year Capital Plan.
- The Universities issued revenue bonds for \$335.0 million to fund the 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. Additionally, the Universities issued \$104.4 million refunding COPs to also 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, 2018 and 2017
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue bonds	\$ 2,371,765	\$ 2,640,330	\$ 3,109,245	\$ 3,010,525	\$ 5,481,010	\$ 5,650,855
Grant anticipation notes	177,420	129,475	—	—	177,420	129,475
Certificates of participation	1,585,995	1,804,395	502,636	557,506	2,088,631	2,361,901
Capital leases	189,581	215,084	131,134	134,399	320,715	349,483
Total	\$ 4,324,761	\$ 4,789,284	\$ 3,743,015	\$ 3,702,430	\$ 8,067,776	\$ 8,491,714

ECONOMIC CONDITION AND OUTLOOK

The Office of Economic Opportunity within the Arizona Department of Administration is forecasting the State to gain a projected 152,968 jobs, representing annual growth rate of 2.6%, over the two-year projected employment period of 2017 (quarter 3) to the 2019 (quarter 2).

The following budgetary information is based on the State of Arizona's Fiscal Year 2019 Appropriations Report.

The State's fiscal year 2019 General Fund budget reflects projected growth in base revenues of 4.0%. The net revenues are projected to increase from \$10.0 billion in fiscal year 2018 to \$10.6 billion in fiscal year 2019. General Fund spending is projected to increase from \$9.8 billion in fiscal year 2018 to \$10.4 billion in fiscal year 2019. The budget includes increased spending for K-12 education changes, increases for Department of Economic Security spending, and increased spending for Department of Corrections. The General Fund fiscal year 2019 cash balance is projected to be a \$236 million balance.

The enacted budget's 3-year spending plan provides estimates of fiscal year 2020 and fiscal year 2021 spending.

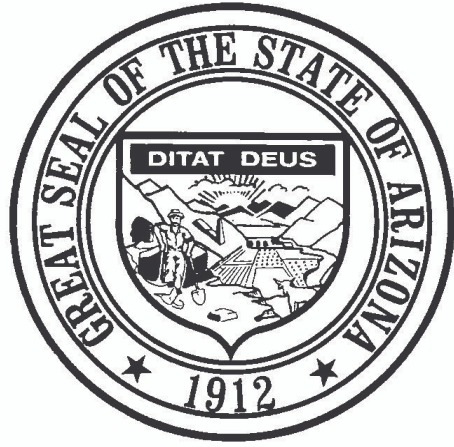
The fiscal year 2020 General Fund budget is forecasted to have revenues of \$11.0 billion and expenditures of \$10.8 billion, with a \$188 million balance. After accounting for legislation enacted separately from the budget and technical adjustments, fiscal year 2020 revenues are projected to be \$11.0 billion compared to spending of \$10.8 billion. The fiscal year 2020 balance is estimated to be \$187 million. The structural balance (difference between ongoing revenues and expenditures and excludes one-time adjustments and Budget Stabilization Fund balance) for fiscal year 2020 is estimated to be \$45 million. The fiscal year 2020 spending projection includes statutory formula caseload growth and removal of fiscal year 2019 spending categorized as one-time in the fiscal year 2019 budget process. Fiscal year 2020 ongoing revenues are primarily based on a base growth rate of 4.4% as negotiated between the Executive and the Legislature, but also incorporate separately enacted tax law changes. It also reflects new one-time spending, including \$49 million in one-time fiscal year 2020 spending to complete SFB school construction projects started in fiscal year 2019 and start SFB projects projected to start in fiscal year 2020 and another year of \$65 million of funding for teacher pay raises that will be funded from an ongoing funding source starting in fiscal year 2022.

The fiscal year 2021 General Fund budget is forecasted to have revenues of \$11.4 billion and expenditures of \$11.3 billion, with a \$102 million balance. After accounting for separately enacted legislation and technical adjustments, fiscal year 2021 revenues are projected to be \$11.4 billion compared to spending of \$11.3 billion. The fiscal year 2021 budget is estimated to have a \$102 million balance. The structural balance for fiscal year 2021 is estimated to be \$2 million. The fiscal year 2021 spending includes statutory formula caseload growth and removal of one-time fiscal year 2020 spending. Fiscal year 2021 ongoing revenues reflect a negotiated base growth rate of 4.4%, further adjusted for previously enacted tax law changes. It also reflects new one-time spending, including \$27 million to complete SFB school construction projects projected to start in fiscal year 2020 and the final year of \$65 million of funding for teacher pay raises that will be funded from an ongoing funding source starting in fiscal year 2022.

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 <https://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

STATE OF ARIZONA
STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
ASSETS				
Current Assets:				
Cash	\$ 4,900	\$ 211,806	\$ 216,706	\$ 47,601
Cash with U.S. Treasury	—	856,110	856,110	—
Cash and pooled investments with State Treasurer	3,511,224	229,577	3,740,801	433,791
Restricted cash and pooled investments with State Treasurer	374,842	—	374,842	—
Cash held by trustee	—	—	—	8,988
Collateral investment pool	52,872	1,877	54,749	—
Short-term investments	—	420,154	420,154	—
Restricted investments held by trustee	—	—	—	706
Receivables, net of allowances:				
Taxes	653,751	94,549	748,300	—
Interest	142,657	2,395	145,052	5,630
Loans and notes	76,830	3,459	80,289	61,309
Other	171,173	232,897	404,070	8,568
Internal balances	(38,015)	38,015	—	—
Due from U.S. Government	1,007,558	70,230	1,077,788	—
Due from local governments	124,012	—	124,012	—
Due from others	263,010	—	263,010	—
Due from component units	10,170	—	10,170	—
Due from primary government	—	—	—	2,047
Inventories, at cost	14,623	19,556	34,179	—
Other current assets	17,742	19,442	37,184	985
Total Current Assets	6,387,349	2,200,067	8,587,416	569,625
Noncurrent Assets:				
Restricted assets:				
Cash	38	25,204	25,242	—
Cash and pooled investments with State Treasurer	1,180,754	—	1,180,754	11,965
Cash held by trustee	43,118	240,306	283,424	15,008
Investments	3,555	—	3,555	—
Investments held by trustee	—	438,806	438,806	1,740
Receivables, net of allowances:				
Loans and notes	114,857	31,593	146,450	717,305
Securities held in escheat	48,658	—	48,658	—
Equity interest in joint venture	—	11,458	11,458	—
Investments	—	1,775,477	1,775,477	86,070
Endowment investments	5,805,436	474,367	6,279,803	—
Net OPEB asset	23,981	100	24,081	—
Other noncurrent assets	—	13,947	13,947	20,633
Capital assets:				
Infrastructure, land, and other non-depreciable	22,461,617	963,525	23,425,142	38,860
Buildings, equipment, and other depreciable, net of accumulated depreciation	1,949,761	4,742,633	6,692,394	32,304
Total Noncurrent Assets	31,631,775	8,717,416	40,349,191	923,885
Total Assets	38,019,124	10,917,483	48,936,607	1,493,510
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	713,884	204,815	918,699	306
Related to OPEB	24,125	15,235	39,360	—
Loss on debt refundings	122,288	79,485	201,773	40,341
Interest rate swap	—	11,043	11,043	—
Total Deferred Outflows of Resources	860,297	310,578	1,170,875	40,647

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

(Continued)

STATE OF ARIZONA
STATEMENT OF NET POSITION
 JUNE 30, 2018
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 585,102	\$ 243,853	\$ 828,955	\$ 18,534
Payable for securities purchased	—	339	339	—
Accrued liabilities	930,498	115,342	1,045,840	5,903
Obligations under securities loan agreements	52,872	1,877	54,749	—
Tax refunds payable	34,915	—	34,915	—
Due to U.S. Government	450,038	5	450,043	—
Due to local governments	1,440,047	—	1,440,047	—
Due to others	660,934	78,705	739,639	—
Due to component units	2,047	—	2,047	—
Due to primary government	—	—	—	10,170
Unearned revenue	106,385	206,092	312,477	1,139
Current portion of accrued insurance losses	65,582	41,626	107,208	—
Current portion of long-term debt	510,754	258,821	769,575	49,429
Current portion of other long-term liabilities	178,977	23,072	202,049	65
Total Current Liabilities	5,018,151	969,732	5,987,883	85,240
Noncurrent Liabilities:				
Unearned revenue	77,349	—	77,349	2,166
Accrued insurance losses	360,359	454,328	814,687	—
Funds held for others	—	11,614	11,614	—
Net OPEB liability	539,333	310,947	850,280	—
Net pension liability	4,490,297	1,436,487	5,926,784	2,355
Long-term debt	4,267,720	3,827,610	8,095,330	635,842
Derivative instrument - interest rate swap	—	11,043	11,043	—
Other long-term liabilities	205,185	107,151	312,336	—
Total Noncurrent Liabilities	9,940,243	6,159,180	16,099,423	640,363
Total Liabilities	14,958,394	7,128,912	22,087,306	725,603
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	255,476	88,834	344,310	417
Related to OPEB	149,226	137,043	286,269	—
Resources received before time requirements met	—	223,943	223,943	—
Gain on debt refundings	—	2,096	2,096	—
Total Deferred Inflows of Resources	404,702	451,916	856,618	417

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

(Continued)

STATE OF ARIZONA
STATEMENT OF NET POSITION
 JUNE 30, 2018
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	
NET POSITION				
Net investment in capital assets	\$ 21,486,658	\$ 1,994,555	\$ 23,481,213	\$ 52,501
Restricted for:				
General government	35,118	—	35,118	—
Health and welfare	58,784	—	58,784	—
Inspection and regulation	2,385	—	2,385	—
Education	444,525	—	444,525	—
Natural resources	9,571	—	9,571	—
Unemployment Compensation	—	901,031	901,031	—
Capital projects	881,310	21,423	902,733	—
Debt service	—	31,252	31,252	91,327
Permanent funds and University funds:				
Expendable	115,920	355,871	471,791	—
Nonexpendable	6,004,847	258,147	6,262,994	—
Loans and other financial assistance:				
Expendable	—	—	—	592,684
Other	—	102,193	102,193	10,137
Unrestricted (deficit)	(5,522,793)	(17,239)	(5,540,032)	61,488
Total Net Position	\$ 23,516,325	\$ 3,647,233	\$ 27,163,558	\$ 808,137

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

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STATE OF ARIZONA
STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2018
(Expressed in Thousands)

ASSETS

Cash and cash equivalent investments	\$ 80,735
Receivables:	
Pledges receivable	248,548
Other receivables	46,393
Total receivables	<u>294,941</u>
Investments:	
Investments in securities	2,078,830
Other investments	92,505
Total investments	<u>2,171,335</u>
Net direct financing leases	63,931
Property and equipment, net of accumulated depreciation	181,956
Other assets	29,595
Total Assets	<u><u>2,822,493</u></u>

LIABILITIES

Accounts payable and accrued liabilities	31,154
Liability under endowment trust agreements	390,952
Long-term debt	353,540
Deferred revenue	25,341
Other liabilities	31,766
Total Liabilities	<u>832,753</u>

NET ASSETS

Permanently restricted	1,246,197
Temporarily restricted	633,852
Unrestricted	109,691
Total Net Assets	<u><u>\$ 1,989,740</u></u>

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

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government	\$ 933,641	\$ 218,721	\$ 143,504	\$ —
Health and welfare	16,254,160	490,929	12,876,139	—
Inspection and regulation	156,149	163,278	21,256	—
Education	6,538,614	64,077	1,593,759	—
Protection and safety	1,954,842	118,382	96,727	—
Transportation	834,697	166,221	149,779	718,788
Natural resources	230,505	80,953	76,088	6
Intergovernmental revenue sharing	3,480,014	—	—	—
Interest on long-term debt	153,914	—	—	—
Total Governmental Activities	30,536,536	1,302,561	14,957,252	718,794
Business-type Activities:				
Universities	5,166,157	2,799,919	1,555,147	20,699
Other	1,156,810	1,598,155	18,386	—
Total Business-type Activities	6,322,967	4,398,074	1,573,533	20,699
Total Primary Government	\$ 36,859,503	\$ 5,700,635	\$ 16,530,785	\$ 739,493
COMPONENT UNITS:				
Arizona Finance Authority	\$ 109,860	\$ 87,360	\$ 19,474	
Other Component Units	59,753	30,913	1,826	
Total Component Units	\$ 169,613	\$ 118,273	\$ 21,300	

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 primary government

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 Notes 8. B and 15. L.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

PRIMARY GOVERNMENT

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL PRIMARY GOVERNMENT	COMPONENT UNITS
\$ (571,416)		\$ (571,416)	
(2,887,092)		(2,887,092)	
28,385		28,385	
(4,880,778)		(4,880,778)	
(1,739,733)		(1,739,733)	
200,091		200,091	
(73,458)		(73,458)	
(3,480,014)		(3,480,014)	
(153,914)		(153,914)	
<u>(13,557,929)</u>		<u>(13,557,929)</u>	
	\$ (790,392)	(790,392)	
	459,731	459,731	
	<u>(330,661)</u>	<u>(330,661)</u>	
<u>(13,557,929)</u>	<u>(330,661)</u>	<u>(13,888,590)</u>	
			\$ (3,026)
			<u>(27,014)</u>
			<u>(30,040)</u>
7,194,123	75,642	7,269,765	—
4,946,644	—	4,946,644	—
298,369	—	298,369	—
55,112	—	55,112	—
1,950,380	—	1,950,380	—
638,988	—	638,988	—
42,463	50,825	93,288	9,051
35,324	—	35,324	144
161,953	—	161,953	—
—	—	—	37,840
178,298	79,617	257,915	292
—	5,702	5,702	—
(530,492)	530,492	—	—
<u>14,971,162</u>	<u>742,278</u>	<u>15,713,440</u>	<u>47,327</u>
<u>1,413,233</u>	<u>411,617</u>	<u>1,824,850</u>	<u>17,287</u>
<u>22,103,092</u>	<u>3,235,616</u>	<u>25,338,708</u>	<u>790,850</u>
<u>\$ 23,516,325</u>	<u>\$ 3,647,233</u>	<u>\$ 27,163,558</u>	<u>\$ 808,137</u>

STATE OF ARIZONA
STATEMENT OF ACTIVITIES
UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions	\$ 32,774	\$ 209,338	\$ 143,884	\$ 385,996
Rental revenue	41,884	—	—	41,884
Sales and services	48,733	—	—	48,733
Net investment income	(10,869)	47,857	49,756	86,744
Grants and aid	19,465	—	—	19,465
Other revenues	24,811	6,041	291	31,143
Net assets released from restrictions	212,228	(187,069)	(25,159)	—
Total Revenues	369,026	76,167	168,772	613,965
EXPENSES				
Program services:				
Payments to Universities	192,285	—	—	192,285
Leasing related expenses	10,798	—	—	10,798
Payments on behalf of Universities	17,251	—	—	17,251
Other program services	8,483	—	—	8,483
Management and general expenses	98,399	—	—	98,399
Fundraising expenses	13,133	—	—	13,133
Interest	9,541	—	—	9,541
Depreciation and amortization	12,011	—	—	12,011
Other expenses	13,889	—	—	13,889
Total Expenses	375,790	—	—	375,790
Increase (decrease) in Net Assets, before loss	(6,764)	76,167	168,772	238,175
Loss on bond refunding	(766)	—	—	(766)
Increase (decrease) in Net Assets	(7,530)	76,167	168,772	237,409
Net Assets - Beginning	117,801	561,151	1,073,379	1,752,331
Transfers	(580)	(3,466)	4,046	—
Net Assets - Ending	\$ 109,691	\$ 633,852	\$ 1,246,197	\$ 1,989,740

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

STATE OF ARIZONA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS					
Cash	\$ 1,369	\$ —	\$ 28	\$ 3,503	\$ 4,900
Cash and pooled investments with State Treasurer	1,897,789	242,366	132,006	973,460	3,245,621
Collateral investment pool	9,146	40	43,686	—	52,872
Receivables, net of allowance:					
Taxes	494,604	67,273	—	91,874	653,751
Interest	338	—	142,319	—	142,657
Loans and notes	33,569	2,647	155,471	—	191,687
Other	91,738	9,621	4,233	28,562	134,154
Due from U.S. Government	902,916	85,603	—	19,039	1,007,558
Due from local governments	124,012	—	—	—	124,012
Due from component units	—	—	—	10,170	10,170
Due from others	263,010	—	—	—	263,010
Due from other funds	32,046	712	229	88,866	121,853
Inventories, at cost	11,632	53	—	—	11,685
Restricted assets:					
Cash	38	—	—	—	38
Cash and pooled investments with State Treasurer	63,628	1,070,254	—	421,714	1,555,596
Cash held by trustee	20	4,144	—	38,954	43,118
Investments	3,555	—	—	—	3,555
Securities held in escheat	48,658	—	—	—	48,658
Endowment investments	—	—	5,805,436	—	5,805,436
Other	—	—	—	1,350	1,350
Total Assets	<u>\$ 3,978,068</u>	<u>\$ 1,482,713</u>	<u>\$ 6,283,408</u>	<u>\$ 1,677,492</u>	<u>\$ 13,421,681</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES					
Liabilities:					
Accounts payable and other current liabilities	\$ 310,034	\$ 94,646	\$ 6,962	\$ 54,819	\$ 466,461
Accrued liabilities	671,528	10,508	246	59,295	741,577
Obligations under securities loan agreements	9,146	40	43,686	—	52,872
Tax refunds payable	2,693	32,206	—	16	34,915
Due to U.S. Government	441,542	—	—	—	441,542
Due to local governments	1,145,829	130,621	—	163,597	1,440,047
Due to component units	2,047	—	—	—	2,047
Due to others	644,343	—	1	16,590	660,934
Due to other funds	74,486	13,401	6,312	9,925	104,124
Unearned revenue	75,053	1,649	105,434	1,598	183,734
Total Liabilities	<u>3,376,701</u>	<u>283,071</u>	<u>162,641</u>	<u>305,840</u>	<u>4,128,253</u>
Deferred Inflows of Resources:					
Unavailable revenue	<u>432,130</u>	<u>28,086</u>	<u>285,882</u>	<u>453</u>	<u>746,551</u>
Fund Balance:					
Nonspendable	11,632	53	5,849,376	—	5,861,061
Restricted	44,401	842,739	—	639,519	1,526,659
Committed	113,204	328,764	—	731,680	1,173,648
Unassigned	—	—	(14,491)	—	(14,491)
Total Fund Balances	<u>169,237</u>	<u>1,171,556</u>	<u>5,834,885</u>	<u>1,371,199</u>	<u>8,546,877</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 3,978,068</u>	<u>\$ 1,482,713</u>	<u>\$ 6,283,408</u>	<u>\$ 1,677,492</u>	<u>\$ 13,421,681</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, 2018
 (Expressed in Thousands)

Total fund balances - governmental funds \$ 8,546,877

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. 24,328,867

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. 746,551

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the Statement of Net Position. (368,889)

The allocation of the internal service funds accumulated net gain results in an amount due to business-type activities, which is not reported in the governmental funds. (59,523)

Net OPEB assets held in trust for future benefits are not available in the current period and, therefore, are not reported in the governmental funds. 23,844

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	122,288	
Related to pensions	704,642	
Related to OPEB	23,724	850,654
	<hr/>	

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 pension	(4,437,945)	
Net OPEB	(530,790)	
Revenue bonds	(2,371,765)	
Grant anticipation notes	(177,420)	
Certificates of participation	(1,585,995)	
Accrued interest on certificates of participation	(21,252)	
Capital leases	(189,581)	
Premium on debt	(453,713)	
Compensated absences	(169,346)	
Pollution remediation obligations	(20,622)	
Accrued relocation costs	(29,783)	(9,988,212)
	<hr/>	

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. (165,954)

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

Related to pensions	(250,914)	
Related to OPEB	(146,976)	(397,890)
	<hr/>	

Net position of governmental activities \$ 23,516,325

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, 2018
(Expressed in Thousands)

	GENERAL FUND	TRANSPORTATION & AVIATION PLANNING, HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES					
Taxes:					
Sales	\$ 6,242,647	\$ 295,100	\$ —	\$ 635,379	\$ 7,173,126
Income	4,892,155	—	—	227	4,892,382
Tobacco	59,141	—	—	239,228	298,369
Property	42,100	13,012	—	—	55,112
Motor vehicle and fuel	16,353	1,773,287	—	160,740	1,950,380
Other	545,656	—	—	93,332	638,988
Intergovernmental	13,943,460	881,151	—	215,507	15,040,118
Licenses, fees, and permits	126,649	130,596	5,630	320,043	582,918
Hospital and nursing facility assessments	—	—	—	318,199	318,199
Earnings on investments	20,781	9,554	360,897	83,158	474,390
Sales and changes for services	124,237	34,282	36,164	49,137	243,820
Fines, forfeitures, and penalties	42,915	—	—	113,751	156,666
Gaming	6,790	—	—	88,577	95,367
Tobacco settlement	101,761	—	—	—	101,761
Proceeds from sale of trust land	—	—	119,122	—	119,122
Other	149,817	5,955	10,864	47,140	213,776
Total Revenues	26,314,462	3,142,937	532,677	2,364,418	32,354,494
EXPENDITURES					
Current:					
General government	684,058	—	137	130,727	814,922
Health and welfare	15,468,314	—	6,975	707,046	16,182,335
Inspection and regulation	39,469	—	—	120,785	160,254
Education	5,463,140	—	235,579	842,461	6,541,180
Protection and safety	1,206,281	—	9,857	305,500	1,521,638
Transportation	—	724,257	—	28,318	752,575
Natural resources	67,994	—	4,728	143,447	216,169
Intergovernmental revenue sharing	2,145,441	1,334,573	—	—	3,480,014
Debt service:					
Principal	150,999	45,116	—	365,080	561,195
Interest and other fiscal charges	28,577	614	—	184,801	213,992
Capital outlay	110,880	768,708	29	53,587	933,204
Total Expenditures	25,365,153	2,873,268	257,305	2,881,752	31,377,478
Excess (Deficiency) of Revenues Over Expenditures	949,309	269,669	275,372	(517,334)	977,016
OTHER FINANCING SOURCES (USES)					
Transfers in	220,261	27,573	—	610,797	858,631
Transfers out	(978,876)	(252,974)	(25,315)	(118,475)	(1,375,640)
Proceeds from sale of capital assets	—	3,524	—	—	3,524
Grant anticipation notes issued	—	—	—	62,595	62,595
Refunding certificates of participation issued	—	—	—	31,570	31,570
Payment to refunded certificates of participation escrow agent	—	—	—	(31,345)	(31,345)
Premium on debt issued	—	—	—	12,839	12,839
Total Other Financing Sources (Uses)	(758,615)	(221,877)	(25,315)	567,981	(437,826)
Net Change in Fund Balances	190,694	47,792	250,057	50,647	539,190
Fund Balances - Beginning, as restated	(21,457)	1,123,764	5,584,828	1,320,552	8,007,687
Fund Balances - Ending	\$ 169,237	\$ 1,171,556	\$ 5,834,885	\$ 1,371,199	\$ 8,546,877

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement, see Note 8. A.

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, 2018
 (Expressed in Thousands)

Net change in fund balances - total governmental funds \$ 539,190

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	933,204	
Infrastructure adjustment	(87,415)	
Depreciation expense	<u>(150,648)</u>	695,141

The net revenue of the internal service funds allocable to governmental activities is included in the Statement of Activities 3,175

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	20,997	
Income taxes	54,262	
Tobacco settlement	4,000	
Operating grants	26,246	
Capital grants	(12,584)	
Other revenue	<u>806</u>	93,727

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 2018, gains resulting from current year land sales exceeded mortgage payments received. 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 gains on sale of land over mortgage receipts	42,831	
Accrued interest on land sales' contracts	<u>(13,454)</u>	29,377

Pension and OPEB 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 and net OPEB asset/liability are measured a year before the State's current fiscal year-end financial statements. Pension and OPEB expenses, which are the changes in the net pension liability and net OPEB asset/liability, adjusted for changes in deferred outflows and inflows of resources related to pensions and OPEB, are reported in the Statement of Activities.

Pension contributions made during fiscal year 2018	286,595	
Pension expense and pension-related grant expense	<u>(701,096)</u>	(414,501)
OPEB contributions made during fiscal year 2018	23,451	
OPEB expense	<u>(1,800)</u>	21,651

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, 2018
 (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	(44,359)	
Compensated absences	(29,017)	
Pollution remediation obligations	(14,099)	
Interest on long-term obligations	2,534	
Other expenses	731	(84,210)
	<u>731</u>	

Debt 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:

GANs issued	(62,595)	
Refunding certificates of participation issued	(31,570)	
Premium on debt issued	(12,839)	(107,004)
	<u>(12,839)</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	561,195	
Payment to refunded certificates of participation escrow agent	31,345	
Debt premium/discount amortization	73,806	
Amortization of deferred losses on refundings	(16,262)	650,084
	<u>(16,262)</u>	

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, therefore, are included in internal service funds' net expense. However, for government-wide reporting, the effect of this contributed capital is eliminated.

(13,397)

Change in net position of governmental activities

\$ 1,413,233

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

STATE OF ARIZONA
STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2018
 (Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	
ASSETS				
Current Assets:				
Cash	\$ 199,674	\$ 12,132	\$ 211,806	\$ —
Cash with U.S. Treasury	—	856,110	856,110	—
Cash and pooled investments with State Treasurer	103,740	125,837	229,577	265,603
Collateral investment pool	—	1,877	1,877	—
Short-term investments	323,869	96,285	420,154	—
Receivables, net of allowances:				
Taxes	—	94,549	94,549	—
Interest	1,145	1,250	2,395	—
Loans and notes	3,459	—	3,459	—
Other	206,632	26,265	232,897	37,019
Due from U.S. Government	70,230	—	70,230	—
Due from other funds	—	—	—	4,554
Inventories, at cost	7,195	12,361	19,556	2,938
Other current assets	19,364	78	19,442	16,392
Total Current Assets	<u>935,308</u>	<u>1,226,744</u>	<u>2,162,052</u>	<u>326,506</u>
Noncurrent Assets:				
Restricted assets:				
Cash	25,204	—	25,204	—
Cash held by trustee	240,306	—	240,306	—
Investments held by trustee	438,806	—	438,806	—
Receivables, net of allowances:				
Loans and notes	31,593	—	31,593	—
Equity interest in joint venture	11,458	—	11,458	—
Investments	1,321,973	453,504	1,775,477	—
Endowment investments	474,367	—	474,367	—
Net OPEB asset	—	100	100	137
Other noncurrent assets	1,946	12,001	13,947	—
Capital assets:				
Land and other non-depreciable	957,229	6,296	963,525	—
Buildings, equipment, and other depreciable, net of accumulated depreciation	4,719,538	23,095	4,742,633	82,511
Total Noncurrent Assets	<u>8,222,420</u>	<u>494,996</u>	<u>8,717,416</u>	<u>82,648</u>
Total Assets	<u>9,157,728</u>	<u>1,721,740</u>	<u>10,879,468</u>	<u>409,154</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	200,316	4,499	204,815	9,242
Related to OPEB	14,880	355	15,235	401
Loss on debt refundings	79,485	—	79,485	—
Interest rate swap	11,043	—	11,043	—
Total Deferred Outflows of Resources	<u>305,724</u>	<u>4,854</u>	<u>310,578</u>	<u>9,643</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, 2018
 (Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 225,945	\$ 17,908	\$ 243,853	\$ 118,641
Payable for securities purchased	—	339	339	—
Accrued liabilities	68,766	46,576	115,342	1,715
Obligations under securities loan agreements	—	1,877	1,877	—
Due to U.S. Government	—	5	5	8,496
Due to others	21,859	56,846	78,705	—
Due to other funds	—	21,508	21,508	775
Unearned revenue	206,026	66	206,092	—
Current portion of accrued insurance losses	—	41,626	41,626	65,582
Current portion of long-term debt	258,821	—	258,821	—
Current portion of other long-term liabilities	21,481	1,591	23,072	12,575
Total Current Liabilities	802,898	188,342	991,240	207,784
Noncurrent Liabilities:				
Accrued insurance losses	—	454,328	454,328	360,359
Funds held for others	11,614	—	11,614	—
Net OPEB liability	303,223	7,724	310,947	8,543
Net pension liability	1,402,525	33,962	1,436,487	52,352
Long-term debt	3,827,610	—	3,827,610	—
Derivative instrument - interest rate swap	11,043	—	11,043	—
Other long-term liabilities	107,151	—	107,151	151,836
Total Noncurrent Liabilities	5,663,166	496,014	6,159,180	573,090
Total Liabilities	6,466,064	684,356	7,150,420	780,874
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	85,518	3,316	88,834	4,562
Related to OPEB	134,968	2,075	137,043	2,250
Resources received before time requirements met	223,943	—	223,943	—
Gain on debt refundings	2,096	—	2,096	—
Total Deferred Inflows of Resources	446,525	5,391	451,916	6,812
NET POSITION				
Net investment in capital assets	1,965,161	29,394	1,994,555	82,511
Restricted for:				
Unemployment Compensation	—	901,031	901,031	—
Capital projects	21,423	—	21,423	—
Debt service	31,252	—	31,252	—
Universities fund:				
Expendable	355,871	—	355,871	—
Nonexpendable	258,147	—	258,147	—
Other	—	102,193	102,193	—
Unrestricted (deficit)	(80,991)	4,229	(76,762)	(451,400)
Total Net Position	\$ 2,550,863	\$ 1,036,847	\$ 3,587,710	\$ (368,889)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			59,523	
Net position of business-type activities			\$ 3,647,233	

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, 2018
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	
OPERATING REVENUES				
Sales and charges for services:				
Student tuition and fees, net of scholarship allowances of \$716,155	\$ 2,213,577	\$ —	\$ 2,213,577	\$ —
Auxiliary enterprises, net of scholarship allowances of \$32,070	438,004	—	438,004	—
Educational department	148,338	—	148,338	—
Other	—	1,077,012	1,077,012	1,102,674
Assessments	—	511,657	511,657	—
Intergovernmental	588,143	4,185	592,328	—
Nongovernmental grants and contracts	259,226	—	259,226	—
Fines, forfeitures, and penalties	—	1,880	1,880	—
Settlement income	—	7,606	7,606	—
Other	59,665	779	60,444	3,442
Total Operating Revenues	<u>3,706,953</u>	<u>1,603,119</u>	<u>5,310,072</u>	<u>1,106,116</u>
OPERATING EXPENSES				
Cost of sales and benefits	1,410,032	1,030,404	2,440,436	942,138
Scholarships and fellowships	308,305	—	308,305	—
Personal services	2,984,839	34,677	3,019,516	41,427
Contractual services	—	24,570	24,570	42,470
Depreciation and amortization	311,209	3,790	314,999	19,979
Insurance	—	480	480	34,233
Other	—	13,788	13,788	10,574
Total Operating Expenses	<u>5,014,385</u>	<u>1,107,709</u>	<u>6,122,094</u>	<u>1,090,821</u>
Operating Income (Loss)	<u>(1,307,432)</u>	<u>495,410</u>	<u>(812,022)</u>	<u>15,295</u>
NON-OPERATING REVENUES (EXPENSES)				
Share of State sales tax revenues	75,642	—	75,642	—
Intergovernmental	365,873	—	365,873	—
Gifts and donations	323,399	—	323,399	—
Gain (loss) on sale of capital assets	(28)	49	21	(134)
Investment income	28,973	36,053	65,026	71
Endowment earnings on investments	18,506	—	18,506	—
Gain on extinguishment of debt	—	—	—	8,916
Other non-operating revenue	16,336	2,816	19,152	9
Distributions	—	(15,029)	(15,029)	—
Interest expense	(143,239)	—	(143,239)	—
Other non-operating expense	(8,590)	(34,072)	(42,662)	(23,267)
Total Non-Operating Revenues (Expenses)	<u>676,872</u>	<u>(10,183)</u>	<u>666,689</u>	<u>(14,405)</u>
Income (Loss) Before Contributions and Transfers	<u>(630,560)</u>	<u>485,227</u>	<u>(145,333)</u>	<u>890</u>
Capital grants and contributions	20,699	—	20,699	15,825
Contributions to permanent endowments	5,702	—	5,702	—
Transfers in	734,518	—	734,518	102
Transfers out	—	(204,026)	(204,026)	(13,585)
Change in Net Position	<u>130,359</u>	<u>281,201</u>	<u>411,560</u>	<u>3,232</u>
Total Net Position - Beginning, as restated	<u>2,420,504</u>	<u>755,646</u>	<u>3,176,150</u>	<u>(372,121)</u>
Total Net Position - Ending	<u>\$ 2,550,863</u>	<u>\$ 1,036,847</u>	<u>\$ 3,587,710</u>	<u>\$ (368,889)</u>
Change in net position of enterprise funds			\$ 411,560	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			57	
Change in net position of business-type activities			<u>\$ 411,617</u>	

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 8. A.

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STATE OF ARIZONA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ —	\$ 501,248	\$ 501,248	\$ —
Receipts from assessments	—	520,974	520,974	—
Receipts from student tuition and fees	2,203,555	—	2,203,555	—
Receipts from sales and services of auxiliary enterprises	443,859	—	443,859	—
Receipts from sales and services of educational departments	144,272	—	144,272	—
Receipts from interfund services / premiums	—	—	—	1,101,624
Receipts from grants and contracts	842,722	4,185	846,907	—
Receipts from student loans collected	4,925	—	4,925	—
Receipts from settlement income	—	7,606	7,606	—
Payments to suppliers, prize winners, claimants, or insurance companies	(1,408,893)	(501,063)	(1,909,956)	(1,026,436)
Payments to employees	(2,990,304)	(54,264)	(3,044,568)	(46,134)
Payments to retirees	—	—	—	(15,075)
Payments for scholarships and fellowships	(288,969)	—	(288,969)	—
Payments for student loans issued	(6,956)	—	(6,956)	—
Other receipts	59,225	4,473	63,698	12,375
Other payments	—	(3,497)	(3,497)	(23,267)
Net Cash Provided (Used) by Operating Activities	(996,564)	479,662	(516,902)	3,087
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Receipts from custodial funds	342,633	—	342,633	—
Receipts from share of State sales tax	75,396	—	75,396	—
Receipts from grants and contributions	1,762,237	—	1,762,237	—
Transfers from other funds	661,283	—	661,283	102
Custodial funds disbursed	(350,051)	—	(350,051)	—
Grants and contributions disbursed	(1,059,173)	—	(1,059,173)	—
Distributions	—	(45,029)	(45,029)	—
Transfers to other funds	—	(230,303)	(230,303)	(13,585)
Other receipts	15,140	—	15,140	—
Net Cash Provided (Used) by Non-capital Financing Activities	1,447,465	(275,332)	1,172,133	(13,483)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	280	83	363	2,031
Proceeds from capital debt, installment purchase contracts, and capital leases	279,332	—	279,332	—
Receipts from federal subsidy	18,739	—	18,739	—
Receipts from capital grants and contributions	31,461	—	31,461	—
Transfers from other funds	81,188	—	81,188	—
Acquisition and construction of capital assets	(614,170)	(2,886)	(617,056)	(2,508)
Interest paid on capital debt, installment purchase contracts, and capital leases	(160,169)	—	(160,169)	—
Principal paid on capital debt, installment purchase contracts, and capital leases	(204,399)	—	(204,399)	(2,266)
Net Cash (Used) by Capital and Related Financing Activities	(567,738)	(2,803)	(570,541)	(2,743)

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, 2018
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
	UNIVERSITIES	OTHER	TOTAL ENTERPRISE FUNDS	
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	403,176	547,564	950,740	—
Interest and dividends from investments	43,841	26,741	70,582	70
Change in cash collateral received from securities lending transactions	—	(3,678)	(3,678)	—
Purchase of investments	(499,996)	(535,643)	(1,035,639)	—
Net Cash Provided (Used) by Investing Activities	(52,979)	34,984	(17,995)	70
Net Increase (Decrease) in Cash and Cash Equivalents	(169,816)	236,511	66,695	(13,069)
Cash and Cash Equivalents - Beginning, as restated	738,740	759,445	1,498,185	278,672
Cash and Cash Equivalents - Ending	\$ 568,924	\$ 995,956	\$ 1,564,880	\$ 265,603
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (1,307,432)	\$ 495,410	\$ (812,022)	\$ 15,295
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	311,209	3,790	314,999	19,979
Provision for uncollectible accounts	—	100	100	—
Miscellaneous expense	(4,925)	(269)	(5,194)	(14,342)
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	6,776	(4,163)	2,613	1,960
(Increase) decrease in due from other funds	—	177	177	(2,843)
(Increase) decrease in inventories, at cost	498	(3,784)	(3,286)	(602)
(Increase) in other assets	(1,507)	(2,676)	(4,183)	(1,238)
(Increase) in net OPEB asset	—	(100)	(100)	(137)
(Increase) in equity interest in joint venture	(426)	—	(426)	—
Decrease in deferred pension outflows of resources	96,555	2,292	98,847	2,023
(Increase) decrease in deferred OPEB outflows of resources	(4,646)	20	(4,626)	46
Increase (decrease) in accounts payable	11,455	4,018	15,473	(5,551)
Increase in accrued liabilities	13,469	19,341	32,810	244
Increase (decrease) in due to U.S. Government	—	(29)	(29)	8,496
Increase in due to other funds	—	—	—	2
Increase in due to others	—	556	556	—
Increase in unearned revenue	9,317	—	9,317	—
(Decrease) in accrued insurance losses	—	(29,853)	(29,853)	(15,676)
(Decrease) in net OPEB liability	(141,426)	(2,257)	(143,683)	(2,520)
(Decrease) in net pension liability	(31,708)	(2,132)	(33,840)	(2,792)
Increase in other liabilities	—	106	106	2,563
(Decrease) in deferred pension inflows of resources	(88,741)	(2,625)	(91,366)	(4,070)
Increase in deferred OPEB inflows of resources	134,968	1,740	136,708	2,250
Net Cash Provided (Used) by Operating Activities	\$ (996,564)	\$ 479,662	\$ (516,902)	\$ 3,087
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
Contribution of capital assets from other funds	\$ —	\$ —	\$ —	\$ 16,628
Increase in fair value of investments	5,573	6,857	12,430	—
Increase in fair value of investments held by trustee	22,437	—	22,437	—
Amortization of bond discount	(5,343)	—	(5,343)	—
Amortization of bond premium	23,993	—	23,993	—
Refinancing long-term debt	283,890	—	283,890	—
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ 330,550	\$ 6,857	\$ 337,407	\$ 16,628

The Notes to the Financial Statements are an integral part of this statement. For beginning balance restatement detail, see Note 8. A.

STATE OF ARIZONA
STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2018
 (Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash	\$ 406,845	\$ —	\$ 6,603
Cash and pooled investments with State Treasurer	—	2,461	83,686
Receivables, net of allowances:			
Accrued interest and dividends	59,870	2,899	2
Securities sold	152,132	—	—
Futures contracts	11,693	—	—
Contributions	131,572	—	—
Court fees	780	—	—
Due from other funds	135,590	—	—
Other	44,156	—	16
Total receivables	<u>535,793</u>	<u>2,899</u>	<u>18</u>
Investments, at fair value:			
Short-term investments	872,036	—	—
Fixed income securities	11,214,537	3,507,834	—
Corporate stocks	25,289,893	—	—
Multi-asset	2,330,172	—	—
Real assets	773,127	—	—
Real estate	5,144,985	—	—
Private equity	1,308,697	—	—
Private credit	1,494,163	—	—
Collateral investment pool	685,220	9,479	—
Other investments	977,967	—	—
Total investments	<u>50,090,797</u>	<u>3,517,313</u>	<u>—</u>
Due from others	—	—	78,842
Custodial securities in safekeeping	—	—	449,706
Prepaid benefits	252,901	—	—
Property and equipment, net of accumulated depreciation	3,641	—	—
Total Assets	<u>51,289,977</u>	<u>3,522,673</u>	<u>618,855</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>1,224</u>	<u>—</u>	<u>—</u>
LIABILITIES			
Accounts payable and other current liabilities	54,279	—	—
Payable for securities purchased	30,380	—	—
Management fee payable	—	176	—
Obligation under securities loan agreements	685,220	9,479	—
Futures contracts payable	15,158	—	—
Due to local governments	—	—	10,609
Due to others	—	—	608,246
Due to other funds	135,590	—	—
Net pension liability	7,040	—	—
Total Liabilities	<u>927,667</u>	<u>9,655</u>	<u>618,855</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	<u>421</u>	<u>—</u>	<u>—</u>
NET POSITION			
Restricted for:			
Pension benefits	47,913,249	—	—
Other post-employment benefits	2,449,864	—	—
Held in trust for pool participants	—	3,513,018	—
Total Net Position	<u>\$ 50,363,113</u>	<u>\$ 3,513,018</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, 2018
 (Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	INVESTMENT TRUST FUNDS
ADDITIONS:		
Member contributions	\$ 1,299,758	\$ —
Employer contributions	1,880,630	—
Non-employer entity contributions	23,944	—
Member purchase of service credit	34,465	—
Court fees	9,924	—
Investment income:		
Net increase (decrease) in fair value of investments	3,831,326	(6,917)
Interest income	98,359	52,530
Dividends	445,214	—
Other investment income	109,745	—
Securities lending income	16,014	278
Total investment income	4,500,658	45,891
Less investment expenses:		
Investment activity expenses	263,306	1,939
Securities lending expenses	5,998	96
Net investment income	4,231,354	43,856
Capital share and individual account transactions:		
Shares sold	—	5,183,551
Reinvested interest income	—	50,604
Shares redeemed	—	(4,989,637)
Net capital share and individual account transactions	—	244,518
Other additions	6,216	—
Total Additions	7,486,291	288,374
DEDUCTIONS:		
Retirement, disability, and survivor benefits	4,095,915	—
Health insurance subsidy	117,948	—
Refunds to withdrawing members, including interest	302,597	—
Administrative expense	39,743	—
Dividends to investors	—	43,718
Other deductions	2,190	—
Total Deductions	4,558,393	43,718
Change in net position restricted in trust for:		
Pension benefits	2,829,052	—
Other post-employment benefits	98,846	—
Pool participants	—	244,656
Net Position - Beginning	47,435,215	3,268,362
Net Position - Ending	<u>\$ 50,363,113</u>	<u>\$ 3,513,018</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, 2018
 (Expressed in Thousands)

	ARIZONA FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
ASSETS			
Current Assets:			
Cash	\$ 12,915	\$ 34,686	\$ 47,601
Cash and pooled investments with State Treasurer	241,953	191,838	433,791
Cash held by trustee	8,988	—	8,988
Restricted investments held by trustee	—	706	706
Receivables, net of allowances:			
Interest	5,630	—	5,630
Loans and notes	60,873	436	61,309
Other	4,774	3,794	8,568
Due from primary government	—	2,047	2,047
Other current assets	—	985	985
Total Current Assets	<u>335,133</u>	<u>234,492</u>	<u>569,625</u>
Noncurrent Assets:			
Restricted assets:			
Cash and pooled investments with State Treasurer	11,965	—	11,965
Cash held by trustee	—	15,008	15,008
Investments held by trustee	—	1,740	1,740
Loans and notes receivable, net of allowances	705,836	11,469	717,305
Investments	86,070	—	86,070
Other noncurrent assets	—	20,633	20,633
Capital assets:			
Land and other non-depreciable	—	38,860	38,860
Buildings, equipment, and other depreciable, net of accumulated depreciation	13	32,291	32,304
Total Noncurrent Assets	<u>803,884</u>	<u>120,001</u>	<u>923,885</u>
Total Assets	<u>1,139,017</u>	<u>354,493</u>	<u>1,493,510</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	184	122	306
Loss on debt refundings	34,413	5,928	40,341
Total Deferred Outflows of Resources	<u>34,597</u>	<u>6,050</u>	<u>40,647</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, 2018
 (Expressed in Thousands)

	ARIZONA FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
LIABILITIES			
Current Liabilities:			
Accounts payable and other current liabilities	\$ —	\$ 18,534	\$ 18,534
Accrued liabilities	5,312	591	5,903
Due to primary government	10,170	—	10,170
Unearned revenue	—	1,139	1,139
Current portion of long-term debt	40,760	8,669	49,429
Current portion of other long-term liabilities	65	—	65
Total Current Liabilities	<u>56,307</u>	<u>28,933</u>	<u>85,240</u>
Noncurrent Liabilities:			
Unearned revenue	2,166	—	2,166
Net pension liability	1,620	735	2,355
Long-term debt	460,031	175,811	635,842
Total Noncurrent Liabilities	<u>463,817</u>	<u>176,546</u>	<u>640,363</u>
Total Liabilities	<u>520,124</u>	<u>205,479</u>	<u>725,603</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	<u>289</u>	<u>128</u>	<u>417</u>
NET POSITION			
Net investment in capital assets	13	52,488	52,501
Restricted for:			
Debt service	78,205	13,122	91,327
Loans and other financial assistance	573,440	19,244	592,684
Other	—	10,137	10,137
Unrestricted	1,543	59,945	61,488
Total Net Position	<u>\$ 653,201</u>	<u>\$ 154,936</u>	<u>\$ 808,137</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, 2018
 (Expressed in Thousands)

<u>FUNCTIONS/PROGRAMS</u>	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
Arizona Finance Authority	\$ 109,860	\$ 87,360	\$ 19,474
Other Component Units	59,753	30,913	1,826
Total	<u>\$ 169,613</u>	<u>\$ 118,273</u>	<u>\$ 21,300</u>

General Revenues:
 Unrestricted investment earnings
 Unrestricted grants and contributions
 Payments from primary government
 Miscellaneous
 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 15. L.

NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION

ARIZONA FINANCE AUTHORITY	OTHER COMPONENT UNITS	TOTAL
\$ (3,026)	\$ —	\$ (3,026)
—	(27,014)	(27,014)
6,643	2,408	9,051
—	144	144
—	37,840	37,840
—	292	292
<u>3,617</u>	<u>13,670</u>	<u>17,287</u>
<u>649,584</u>	<u>141,266</u>	<u>790,850</u>
<u>\$ 653,201</u>	<u>\$ 154,936</u>	<u>\$ 808,137</u>

STATE OF ARIZONA
COMBINING STATEMENT OF FINANCIAL POSITION
UNIVERSITIES - AFFILIATED COMPONENT UNITS
JUNE 30, 2018
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY ENTERPRISE PARTNERS	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
ASSETS					
Cash and cash equivalent investments	\$ 12,967	\$ 39,567	\$ 1,153	\$ 27,048	\$ 80,735
Receivables:					
Pledges receivable, net of allowances	156,337	40,846	—	51,365	248,548
Other receivables	6,318	—	129	39,946	46,393
Total receivables	162,655	40,846	129	91,311	294,941
Investments:					
Investments in securities	860,151	964,442	33,737	220,500	2,078,830
Other investments	77,560	—	—	14,945	92,505
Total investments	937,711	964,442	33,737	235,445	2,171,335
Net direct financing leases	21,005	—	38,277	4,649	63,931
Property and equipment, net of accumulated depreciation	12,871	3,346	129,389	36,350	181,956
Other assets	17,032	2,698	9	9,856	29,595
Total Assets	1,164,241	1,050,899	202,694	404,659	2,822,493
LIABILITIES					
Accounts payable and accrued liabilities	14,118	3,842	6,047	7,147	31,154
Liability under endowment trust agreements	137,372	219,345	—	34,235	390,952
Long-term debt	96,256	—	248,556	8,728	353,540
Deferred revenue	—	—	—	25,341	25,341
Other liabilities	26,415	—	—	5,351	31,766
Total Liabilities	274,161	223,187	254,603	80,802	832,753
NET ASSETS					
Permanently restricted	484,923	672,395	—	88,879	1,246,197
Temporarily restricted	357,719	139,505	—	136,628	633,852
Unrestricted (deficit)	47,438	15,812	(51,909)	98,350	109,691
Total Net Assets	\$ 890,080	\$ 827,712	\$ (51,909)	\$ 323,857	\$ 1,989,740

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, 2018
(Expressed in Thousands)

	ARIZONA STATE UNIVERSITY ENTERPRISE PARTNERS	UNIVERSITY OF ARIZONA FOUNDATION	ARIZONA CAPITAL FACILITIES FINANCE CORPORATION	OTHER COMPONENT UNITS	TOTAL
REVENUES					
Contributions	\$ 171,756	\$ 169,082	\$ —	\$ 45,158	\$ 385,996
Rental revenue	3,109	—	13,438	25,337	41,884
Sales and services	30,037	3,100	9,743	5,853	48,733
Net investment income	17,395	53,249	145	15,955	86,744
Grants and aid	—	—	—	19,465	19,465
Other revenues	3,187	13,198	7,738	7,020	31,143
Total Revenues	<u>225,484</u>	<u>238,629</u>	<u>31,064</u>	<u>118,788</u>	<u>613,965</u>
EXPENSES					
Program services:					
Payments to Universities	110,200	62,072	1,042	18,971	192,285
Leasing related expenses	—	—	—	10,798	10,798
Payments on behalf of Universities	—	12,156	—	5,095	17,251
Other program services	—	—	—	8,483	8,483
Management and general expenses	39,051	7,036	9,076	43,236	98,399
Fundraising expenses	—	7,692	—	5,441	13,133
Interest	1,491	—	7,845	205	9,541
Depreciation and amortization	796	—	10,048	1,167	12,011
Other expenses	11,795	—	54	2,040	13,889
Total Expenses	<u>163,333</u>	<u>88,956</u>	<u>28,065</u>	<u>95,436</u>	<u>375,790</u>
Increase in Net Assets, before loss	62,151	149,673	2,999	23,352	238,175
Loss on bond refunding	—	—	(766)	—	(766)
Increase in Net Assets	62,151	149,673	2,233	23,352	237,409
Net Assets - Beginning	<u>827,929</u>	<u>678,039</u>	<u>(54,142)</u>	<u>300,505</u>	<u>1,752,331</u>
Net Assets - Ending	<u>\$ 890,080</u>	<u>\$ 827,712</u>	<u>\$ (51,909)</u>	<u>\$ 323,857</u>	<u>\$ 1,989,740</u>

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
INDEX

	Page		Page		
Note 1.	Summary of Significant Accounting Policies	65	Note 6.	Long-Term Obligations	113
	A. Reporting Entity	65		A. Revenue Bonds	113
	B. Basis of Presentation	69		B. Grant Anticipation Notes	119
	C. Measurement Focus and Basis of Accounting	70		C. Certificates of Participation	120
	D. Deposits and Investments	71		D. Leases	123
	E. Taxes Receivable	72		E. Compensated Absences	124
	F. Inventories	72		F. Changes in Long-Term Obligations	125
	G. Capital Assets	72	Note 7.	Interfund Transactions	126
	H. Deferred Outflows of Resources	73	Note 8.	Accounting Changes	127
	I. Investment Earnings	73		A. Fund Financial Statements	127
	J. Scholarship Allowances	73		B. Government-wide Financial Statements	127
	K. Unearned Revenue	73	Note 9.	Governmental Fund Balances	128
	L. Postemployment Benefits	73	Note 10.	Deficit Net Position	128
	M. Compensated Absences	73	Note 11.	Joint Ventures	129
	N. Long-Term Obligations	74		A. Large Binocular Telescope Corporation	129
	O. Deferred Inflows of Resources	74		B. Giant Magellan Telescope Organization	129
	P. Net Position/Fund Balances	74	Note 12.	Commitments, Contingencies, and Compliance	129
	Q. New Accounting Pronouncements and Change in Reporting Entity	75		A. Insurance Losses	129
Note 2.	Deposits and Investments	76		B. Litigation	131
	A. Deposits and Investment Policies	76		C. Accumulated Sick Leave	131
	B. Custodial Credit Risk - Deposits and Investments	78		D. Unclaimed Property	131
	C. Interest Rate Risk	78		E. Construction Commitments	132
	D. Credit Risk	80		F. Arizona State Lottery	132
	E. Concentration of Credit Risk	81	Note 13.	Tobacco Settlement	132
	F. Foreign Currency Risk	81	Note 14.	Subsequent Events	132
	G. Fair Value Measurement of Investments	82	Note 15.	Discretely Presented Component Unit Disclosures	133
	H. Securities Lending	88		A. Summary of Significant Accounting Policies	133
	I. Derivatives	90		B. Deposits and Investments	135
	J. State Treasurer's Separately Issued Financial Statements	92		C. Endowments	138
Note 3.	Receivables/Unavailable Revenue/Unearned Revenue	93		D. Program Loans	139
	A. Taxes Receivable	93		E. Pledges Receivable	139
	B. Unavailable Revenue	93		F. Direct Financing Lease Agreements	140
	C. Unearned Revenue	94		G. Capital Assets	140
Note 4.	Capital Assets	95		H. Long-Term Obligations	141
Note 5.	Pension and Other Postemployment Benefits	96		I. Tax Abatements	143
	A. Arizona State Retirement System	97		J. Conduit Debt	144
	B. Public Safety Personnel Retirement System and Corrections Officer Retirement Plan	100		K. Nonexchange Financial Guarantees	144
	C. Elected Officials' Retirement Plan	107		L. Accounting Changes	145
	D. Arizona Department of Administration Defined Benefit Healthcare Plan	111			

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 15 - *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 to pay for the administrative expenses

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 <https://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 229 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. The Board of Trustees, which is comprised of 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.

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.

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, 28 local boards of the CORP, and 15 local boards of the AOC administer the plans according to the provisions of A.R.S. Title 38, Chapter 5, Article 6. The State has the ability to impose its will on the CORP and AOC as the State Legislature can modify the plans design and benefits. Complete financial statements may be obtained from the PSPRS's administrative office at 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016-4416, (602) 255-5575, or its website at www.psprs.com.

The State reports the following discretely presented component units:

Major Component Unit:

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 15th Avenue, Suite 103, Phoenix, AZ 85007, (602) 364-1323. Complete financial statements for AFA's AIDA may be obtained from Kutak Rock LLP's administrative office at 8601 North Scottsdale Road, Suite 300, Scottsdale, AZ 85253.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 <https://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 7th 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.

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

University of Arizona Foundation (U of A Foundation) - The U of A Foundation supports the U of A through various fundraising 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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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.

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

The financial statements of the ASUAFD are not available as of June 30, 2018, 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: The University of Arizona Foundation, Financial Services Office, 1111 N. Cherry Ave., Room 403, Tucson, AZ 85721-0109.

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

B. BASIS OF PRESENTATION

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

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

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

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

Program revenues include:

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

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

Interfund balances have been eliminated from the government-wide financial statements to the extent that they occur within either the governmental or business-type activities. Balances between governmental and business-type activities are presented as internal balances

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.
- *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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2018. Sales and motor vehicle and fuel tax receivables represent amounts that are earned by the State in the fiscal period ended June 30, 2018, 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 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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 6, 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.

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. POSTEMPLOYMENT BENEFITS

For purposes of measuring the net pension and other postemployment benefits (OPEB) assets and liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee pension 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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 12.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 6.

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.

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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

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, 2018, was \$457.8 million.

Q. NEW ACCOUNTING PRONOUNCEMENTS AND CHANGE IN REPORTING ENTITY

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*, establishes financial reporting standards for measuring and recognizing net assets or liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB provided through defined benefit OPEB plans. In addition, GASB Statement No. 75 requires disclosure of information related to OPEB. This Statement is effective for fiscal years beginning after June 15, 2017. The State has implemented the requirements of this standard.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, establishes standards for disclosing irrevocable split interest agreements by providing recognition and measurement guidelines for situations in which a government is a beneficiary of the agreement. This statement is effective for financial statements for periods beginning after December 15, 2016. The implementation of this standard had no effect on the financial statements.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

GASB Statement No. 85, *Omnibus 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and OPEB. This statement is effective for financial statements for periods beginning after June 15, 2017. The State has implemented the requirements of this standard.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes accounting and financial reporting standards for in-substance defeasance of debt and prepaid insurance on debt that is extinguished. This statements also improves notes to financial statements for debt that is defeased in substance. This statement is effective for financial statements for periods beginning after June 15, 2017. The State has implemented the requirements of this standard.

In the prior year, the Arizona Industries for the Blind (AIB) was reported as a non-major enterprise fund. Beginning in fiscal year 2018, the AIB was no longer part of the State's reporting entity. For the beginning balance restatement detail, see Note 8.A.

NOTE 2. DEPOSITS AND INVESTMENTS

A. DEPOSITS AND INVESTMENT POLICIES

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

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

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

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 \$1.1 million was received as payout of funds being held by the Indenture Trustee for Lehman Brothers securities. The payout received will be 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, 2018, the carry or cost basis and the fair value for the Lehman Brothers Pool were \$21.8 million and \$0.7 million, respectively. There were no distributions during fiscal year 2018, although the payouts received from April 2017 through April 2018 were distributed July 2, 2018. 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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, loans, and direct investments in partnerships. 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 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; certain

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

corporate obligations; 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, 2018, the State had \$101.4 million in securities that were uninsured, not registered in the State's name, and held by either the counterparty or counterparty's trust department or agent, but not in the State's name.

C. INTEREST RATE RISK

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

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

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 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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

The following table presents the State Treasurer's, the ASRS', the ASU's, the Commission's, and the IDGF's weighted average maturity in years by investment type as of June 30, 2018 (expressed in thousands):

Investment Type	Fair Value	Weighted Average Maturity (in years)
Asset backed securities	\$ 395,374	2.81
Certificates of deposit (negotiable)	141,847	0.30
Commercial mortgage backed securities	160,505	26.51
Commercial paper	2,007,495	0.09
Corporate notes & bonds	3,028,916	4.29
Government bonds	1,014,756	6.61
Government mortgage backed securities	408,026	23.90
Money market mutual funds	253,909	0.08
Repurchase agreements	2,949,373	0.01
U.S. agency mortgage backed securities	1,228,845	16.75
U.S. agency mortgage backed securities - full faith	676,107	22.87
U.S. agency securities	591,831	1.02
U.S. agency securities - full faith	94,764	1.59
U.S. Treasury securities	2,242,651	1.67
Other	94,147	3.00
Total	<u>\$ 15,288,546</u>	<u>4.97</u>

The PSPRS, the EORP, and the CORP do not have a formal policy in regard to interest rate risk. The PSPRS, the EORP, and the CORP utilize effective duration to identify and manage its interest rate risk.

The following table presents the PSPRS', the EORP's, and the CORP's effective duration by investment type as of June 30, 2018 (expressed in thousands):

Investment Type	Fair Value	Effective Duration (in years)
U.S. agency securities	\$ 6,941	6.26
Corporate notes & bonds	566,638	*
Total	<u>\$ 573,579</u>	

*Duration calculations for some securities are not available.

The U of A does 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 NAU, the U of A, and other State agencies utilizing the segmented time distribution as of June 30, 2018 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Certificates of deposit (negotiable)	\$ 32,131	\$ 5,464	\$ 25,482	\$ 1,185	\$ —
Corporate notes & bonds	571,294	182,127	377,937	11,230	—
Government bonds	1,638	—	1,638	—	—
Money market mutual funds	168,767	168,767	—	—	—
U.S. agency securities	226,241	144,800	78,558	2,883	—
U.S. Treasury securities	108,544	82,880	25,553	111	—
Other	6,027	—	2,673	3,251	103
Total	<u>\$ 1,114,642</u>	<u>\$ 584,038</u>	<u>\$ 511,841</u>	<u>\$ 18,660</u>	<u>\$ 103</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2018 (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.	\$ 703,893	\$ 195,249	\$ —	\$ 899,142
Asset backed securities with coupon tied to the LIBOR plus/minus a fixed basis point which resets from monthly to quarterly.	85,489	—	—	85,489
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.	110,302	1,904,952	—	2,015,254
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.	—	—	20,016	20,016
Other investments (including full faith) with high sensitivity to rate changes.	73,716	104,236	—	177,952
Total	\$ 973,400	\$ 2,204,437	\$ 20,016	\$ 3,197,853

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 either directly guaranteed by the U.S. Government (Treasury securities) or implicitly guaranteed by the U.S. Government (agency securities).

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

The PSPRS', the EORP's, and the CORP's investment policies are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. The fixed income portfolio must have a minimum weighted average quality rating of A3 by Moody's and A- by 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).

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2018. 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	\$ 370,816	\$ 320,682	\$ 5,501	\$ 1,356	\$ 2,018	\$ —	\$ —	\$ —	\$ 31,076	\$ 10,183
Certificates of deposit (negotiable)	156,009	—	6,994	20,000	—	—	—	—	120,344	8,671
Commercial mortgage backed securities	160,505	142,317	6,376	—	—	—	—	—	—	11,812
Commercial paper	2,007,495	—	—	—	—	—	—	—	2,007,495	—
Corporate notes & bonds	4,188,947	103,591	515,209	1,470,078	1,185,456	97,043	170,198	46,627	—	600,745
Government bonds	997,564	139,726	829,228	27,738	710	—	—	—	—	162
Government mortgage backed securities	408,026	—	408,026	—	—	—	—	—	—	—
Money market mutual funds	422,676	422,676	—	—	—	—	—	—	—	—
Repurchase agreements	1,835,000	—	1,835,000	—	—	—	—	—	—	—
U.S. agency mortgage backed securities	1,216,548	2,355	1,207,431	—	4,895	—	—	—	—	1,867
U.S. agency securities	825,013	88,602	736,411	—	—	—	—	—	—	—
Other	110,274	—	393	—	—	—	—	—	—	109,881
Total	\$ 12,698,873	\$ 1,219,949	\$ 5,550,569	\$ 1,519,172	\$ 1,193,079	\$ 97,043	\$ 170,198	\$ 46,627	\$ 2,158,915	\$ 743,321

E. CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State Treasurer's, the ASRS', the Universities', and the Commission's investment policies provide that no more than 5% of their investments shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. However, securities issued by the U.S. government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt. The State Treasurer also exempts from this policy the purchase of Treasurer Warrant Notes for the State Agencies Diversified pool, provided the maximum amount of the notes purchased shall not exceed 50% of the market value of the pool, bonds issued by an agency of the State, and pre-refunded municipal bonds issued by any entity that are invested in obligations issued or guaranteed by the U.S. government or any of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities. The PSPRS', the EORP's, and the CORP's investment policies state that no more than 5% of the Fund or its fixed income portfolio at fair value shall be invested in bonds issued by any one institution, agency, or corporation other than bonds issued as direct obligations of, and fully guaranteed by, the U.S. Government. The IDGF's investment policies state that no more than 5% of its investment portfolio or \$5 million, whichever is less, shall be invested with any one issuer, with the exception of the U.S. government, its agencies, or instrumentalities. At June 30, 2018, no investments in any one issuer exceeded more than 5% of the primary government's total investments.

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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

The following table summarizes the State's foreign currency risk as of June 30, 2018 (expressed in thousands):

Foreign Currency Risk by Investment Type at Fair Value				
Currency	Short Term	Equities	Other Investments	Total
Australian Dollar	\$ 1,119	\$ 488,352	\$ —	\$ 489,471
Brazilian Real	132	18,313	—	18,445
British Pound Sterling	8,583	1,332,231	57,650	1,398,464
Canadian Dollar	5,795	222,905	—	228,700
Chilean Peso	2	2,904	—	2,906
Columbian Peso	26	1,698	—	1,724
Czech Koruna	38	388	—	426
Danish Krone	1,898	123,213	—	125,111
Euro Currency	9,791	2,490,767	319,472	2,820,030
Hong Kong Dollar	1,335	315,692	—	317,027
Hungarian Forint	43	687	—	730
Indian Rupee	25	21,316	—	21,341
Indonesian Rupiah	110	5,315	—	5,425
Japanese Yen	16,466	1,859,568	—	1,876,034
Malaysian Ringgit	15	7,616	—	7,631
Mexican Peso	10	16,511	7,117	23,638
New Israeli Shekel	603	30,159	—	30,762
New Taiwan Dollar	1,505	35,445	—	36,950
New Zealand Dollar	146	26,189	—	26,335
Norwegian Krone	235	75,204	4	75,443
Philippine Peso	12	2,965	—	2,977
Polish Zloty	70	2,949	—	3,019
Qatari Riyal	(197)	2,084	—	1,887
Singapore Dollar	713	114,794	—	115,507
South African Rand	46	20,040	—	20,086
South Korean Won	32	44,668	—	44,700
Swedish Krona	486	210,233	—	210,719
Swiss Franc	1,820	526,090	—	527,910
Thai Baht	786	5,057	—	5,843
Turkish Lira	67	1,953	—	2,020
UAE Dirham	20	1,241	—	1,261
Total	<u>\$ 51,732</u>	<u>\$ 8,006,547</u>	<u>\$ 384,243</u>	<u>\$ 8,442,522</u>

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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2018, categorized within the fair value hierarchy, were as follows (expressed in thousands):

Investments by Fair Value Level	June 30, 2018	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	\$ 334,684	\$ —	\$ 334,684	\$ —
Certificates of deposit (negotiable)	141,847	—	141,847	—
Commercial mortgage backed securities	114,733	—	114,733	—
Commercial paper	2,007,495	—	2,007,495	—
Corporate notes & bonds	1,765,240	—	1,765,240	—
Equities	3,694,464	3,694,464	—	—
Government bonds	173,548	—	173,548	—
Money market mutual funds	52,723	8,626	44,097	—
Repurchase agreements	2,949,373	—	2,949,373	—
Security lending collateral investments	62,351	—	62,351	—
U.S. agency mortgage backed securities	1,228,845	—	1,228,845	—
U.S. agency mortgage backed securities – full faith	676,107	—	676,107	—
U.S. agency securities	495,715	—	495,715	—
U.S. agency securities - full faith	94,764	—	94,764	—
U.S. Treasury securities	2,091,374	212,126	1,879,248	—
Other	12,127	10,917	1,210	—
Total investments by fair value level	<u>15,895,390</u>	<u>\$ 3,926,133</u>	<u>\$ 11,969,257</u>	<u>\$ —</u>
Investments Measured at the Net Asset Value (NAV)				
Bank loan partnership fund	20,413			
Foreign large value fund	22,823			
High yield short term duration bond fund	22,099			
Natural resources investment fund	<u>8,105</u>			
Total investments measured at the NAV	<u>73,440</u>			
Total investments measured at fair value	<u>\$ 15,968,830</u>			

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

b. Investments Measured at the NAV

The investments held at June 30, 2018, valued using the NAV per share were as follows (expressed in thousands):

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Bank loan partnership fund	\$ 20,413	—	N/A	N/A
Foreign large value fund	22,823	—	N/A	N/A
High yield short term duration bond fund	22,099	—	N/A	N/A
Natural resources investment fund	<u>8,105</u>	—	N/A	N/A
Total	<u>\$ 73,440</u>			

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

2. Universities

a. Investments Classified in Fair Value Hierarchy

The investments held by the Universities at June 30, 2018, categorized within the fair value hierarchy, were as follows (expressed in thousands):

Investments by Fair Value Level	June 30, 2018	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	\$ 50,876	\$ —	\$ 50,876	\$ —
Certificates of deposit (negotiable)	32,131	—	32,131	—
Commercial mortgage backed securities	8,848	—	8,848	—
Corporate notes & bonds	1,045,004	—	1,044,607	397
Equities	7,511	3,785	2,694	1,032
Equity mutual funds	34,451	34,451	—	—
Fixed income mutual funds	3,621	3,621	—	—
Government bonds	22,780	—	22,780	—
Money market mutual funds	369,850	151,519	218,331	—
Mutual funds - asset allocation	759	759	—	—
Real estate	58,535	—	—	58,535
U.S. agency securities	322,358	—	322,358	—
U.S. Treasury securities	259,821	259,821	—	—
Other	92,937	92,937	—	—
Total investments by fair value level	<u>2,309,482</u>	<u>\$ 546,893</u>	<u>\$ 1,702,625</u>	<u>\$ 59,964</u>
Other Investments at Fair Value				
ASU Foundation Endowment Pool	137,372			
NAU Foundation Investment Pool	33,867			
U of A - Academic Enhancement Fund Trust	257,743			
U of A Foundation	195,550			
U of A - Split Interest Endowment	9,071			
Total other investments at fair value	<u>633,603</u>			
Investments Measured at the NAV				
Equity mutual funds	3,133			
Total investments measured at the NAV	<u>3,133</u>			
Total investments measured at fair value	<u>\$ 2,946,218</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 fair value of equities are valued using multiple pricing options. For managed assets, business appraisers use valuation methodologies based on a number of assumptions to create the price. For non-managed assets, pricing is provided by various sources including the issuer or private investment manager. Real estate is valued by using either (1) the market approach industry standard valuation technique which includes independent appraisals or (2) the income approach to measuring fair value which discounts future amounts to a single current amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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 U of A 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, 2018, valued using the NAV per share were as follows (expressed in thousands):

Investments Measured at the NAV	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity mutual funds	\$ 3,133	—	Quarterly	90 days
Total	<u>\$ 3,133</u>			

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

3. Retirement Systems

a. Investments Classified in Fair Value Hierarchy

The investments held by the ASRS, PSPRS, CORP, and EORP at June 30, 2018, categorized within the fair value hierarchy, were as follows (expressed in thousands):

Investments by Fair Value Level	June 30, 2018	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	\$ 9,814	\$ —	\$ 9,814	\$ —
Commercial mortgage backed securities	36,924	—	36,924	—
Corporate notes & bonds	789,966	—	789,966	—
Government bonds	1,393,641	51,460	831,852	510,329
Government mortgage backed securities	408,026	—	408,026	—
Opportunistic equity	10,221	10,221	—	—
Real estate	42,767	—	—	42,767
U.S. equities	11,512,569	11,243,169	1,651	267,749
Non-U.S. equities	8,123,932	7,986,377	—	137,555
Other	4	\$ 4	\$ —	\$ —
Total investments by fair value level	<u>22,327,864</u>	<u>\$ 19,291,231</u>	<u>\$ 2,078,233</u>	<u>\$ 958,400</u>
Investments Measured at the NAV				
Commingled funds - fixed income	2,016,945			
Commingled funds - international emerging markets	1,806,657			
Commingled funds - multi asset	1,236,267			
Farmland fund	189,792			
Global trading strategies	1,093,905			
Infrastructure fund	373,428			
Opportunistic debt funds	1,735,688			
Opportunistic equity funds	280,054			
Private credit	1,494,163			
Private debt funds	4,823,529			
Private equity funds	4,865,157			
Real assets	773,127			
Real estate	828,997			
Real estate funds	4,273,221			
Risk parity	414,747			
Total investments measured at the NAV	<u>26,205,677</u>			
Cash and short term instruments	872,036			
Securities lending collateral	685,220			
Total investments	<u>\$ 50,090,797</u>			

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 matrix pricing technique. Matrix pricing is used to value securities based on the securities' 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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

b. Investments Measured at the NAV

The investments held by the ASRS, PSPRS, CORP, and EORP at June 30, 2018, valued using the NAV per share were as follows (expressed in thousands):

Investment Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled funds - fixed income	\$ 2,016,945	\$ —	Daily	2 Days
Commingled funds - international emerging markets	1,806,657	—	Daily	1-2 Days
Commingled funds - multi asset	1,236,267	—	Monthly	3 Days
Farmland fund	189,792	—	N/A	N/A
Global trading strategies	1,093,905	66,652	Monthly, Quarterly, Annually	5 days - 1 year
Infrastructure fund	373,428	—	N/A	N/A
Opportunistic debt funds	1,735,688	1,055,191	N/A	N/A
Opportunistic equity funds	280,054	152,715	N/A	N/A
Private credit	1,494,163	340,920	Daily, Monthly, Quarterly, Annually	1 day - 1 year
Private debt funds	4,823,529	2,571,045	N/A	N/A
Private equity funds	4,865,157	2,660,637	N/A	N/A
Real assets	773,127	289,829	Daily, Monthly, Quarterly, Annually	1 day - 1 year
Real estate	828,997	235,926	Daily, Monthly, Quarterly, Annually	1 day - 1 year
Real estate funds	4,273,221	2,159,225	N/A	N/A
Risk parity	414,747	—	Monthly, Quarterly, Annually	5 days
Total	<u>\$ 26,205,677</u>	<u>\$ 9,532,140</u>		

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

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

Global Trading Strategies (GTS) - GTS 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, 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 Assets - Real asset investments are held in assets like gas, oil, minerals, and timber.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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. 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 62 days, as of June 30, 2018. Cash open collateral is invested in a short-term investment pool, the NILAP fund, which had an interest sensitivity of 15 days, as of June 30, 2018. 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, 2018 for loaned securities collateralized by cash and non-cash collateral was \$1.8 million and \$5.6 million, respectively. As part of the securities lending transactions, the Northern Trust Company received cash and non-cash collateral valued at \$1.9 million and \$5.8 million, respectively, at June 30, 2018. 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, 2018, the Commission had \$1.9 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,

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

and the cash collateral received as an obligation, for securities on loan on 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, 2018, the fair value of securities on loan was \$1.7 billion; of which \$104.6 million were cash collateralized loans. Cash of \$109.1 million received as collateral for securities loaned was reinvested and had a net position value of \$109.1 million, as of June 30, 2018. The securities lending payable at June 30, 2018 was \$109.1 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 by cash and securities. 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. securities and 105% of the fair value of the loaned foreign securities, plus any applicable accrued interest in the case of debt securities. Securities on loan are carried at fair value. As of June 30, 2018, the fair values of securities on loan for the PSPRS, the EORP, and the CORP were \$438.2 million, \$17.3 million, and \$115.7 million, respectively. At June 30, 2018, the values of the cash collateral for the PSPRS, the EORP, and the CORP were \$441.9 million, \$17.5 million, and \$116.7 million, respectively. At June 30, 2018, the values of the non-cash collateral for the PSPRS, the EORP, and the CORP were \$6.8 million, \$269 thousand, and \$1.8 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 associated value of the collateral held exceed the value of the securities loaned.

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, 2018, the cost and fair value of securities on loan were \$369.5 million and \$678.4 million, respectively. The associated fair value of the invested collateral was \$693.6 million, of which \$62.4 million was invested cash collateral. All securities loans can be terminated on demand by either the State Treasurer or the borrower. For the cash collateral investments, the weighted average maturity was one day. The State Treasurer does not have the ability to pledge or sell the non-cash collateral unless there is a borrower default. The State Treasurer is indemnified against gross negligence, bad faith, or willful misconduct and borrower default by the lending agent. There were no borrower defaults during the current fiscal year.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

At June 30, 2018, the State Treasurer had \$62.4 million outstanding as payable for securities lending, and the following securities on loan were uninsured and held by the bank trust department not in the Treasurer's name:

U.S. Treasury securities	\$ 472,364,330
Equities	<u>145,117,496</u>
Total Fair Value	<u><u>\$ 617,481,826</u></u>

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.

1. Arizona State Retirement System

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, 2018, classified by type, and the changes in fair value of derivative instruments for the year then ended as reported in the June 30, 2018 financial statements were as follows (expressed in thousands):

Investment Derivatives by Type					
Investment Derivatives	Changes in Fair Value (1)		Fair Value at June 30, 2018		
	Classification	Amount (2)	Classification	Amount	Notional
Commodity futures long	Net increase in fair value of investments	\$ 58,364	Not applicable	\$ —	\$ 300,011
Commodity futures short	Net (decrease) in fair value of investments	(18,718)	Not applicable	—	(59,303)
Fixed income futures long	Net (decrease) in fair value of investments	(4,352)	Not applicable	—	—
Fixed income futures short	Net increase in fair value of investments	269	Not applicable	—	(14,783)
Foreign currency forwards	Net increase in fair value of investments	3,033	Futures receivable	—	—
Index futures long	Net increase in fair value of investments	31,405	Not applicable	—	81,329
Index futures short	Net (decrease) in fair value of investments	(48)	Not applicable	—	—
Rights	Net increase in fair value of investments	66	Equity securities	580	580
Warrants	Net (decrease) in fair value of investments	(746)	Equity securities	46	46
Total		<u>\$ 69,273</u>		<u>\$ 626</u>	<u>\$ 307,880</u>

- (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 values of foreign currency forward contracts are based on mathematical models and are valued using a pricing service, which uses published Reuter's foreign currency rates as the primary source for the calculation.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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

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

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

As of June 30, 2018, 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, 2018. Accordingly, the ASRS was not exposed to loss in case of default of all counterparties of over-the-counter positions as of June 30, 2018.

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 and exposure of the fixed income futures outstanding at June 30, 2018, for the year then ended, as reported in the June 30, 2018 financial statements were as follows (expressed in thousands):

Derivative Instruments Highly Sensitive to Interest Rate Changes				
Asset ID	Asset Description	Interest Rate	Fair Value	Total Exposure
FIXED INCOME FUTURES SHORT				
AD10ZZBN5	US 10YR NOTE (CBT) SEP 18	N/A	\$ —	\$ (14,783)
Total Fixed Income Futures Short			\$ —	\$ (14,783)

The ASRS is exposed to foreign currency risk on its foreign currency forward contracts and future contracts. See the Foreign Currency Risk schedule in Note 2.F. for additional information on currency risk exposure. A summary of foreign currency risk from derivative instruments as of June 30, 2018, was as follows (expressed in thousands):

Derivative Instruments Foreign Currency Risk		
Currency Name	Options	Total Exposure
Australian Dollar	\$ 4	\$ 4
British Pound Sterling	153	153
Euro Currency	423	423
Total	\$ 580	\$ 580

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

The PSPRS, the EORP, and the CORP have adopted a derivative policy that specifically authorizes external investment managers to enter into certain derivative contracts based on an analysis that the use of such derivatives will have a positive impact on the PSPRS', the EORP's, and the CORP's ability to manage their underlying assets and liabilities. The investment program, indirectly through its external managers, holds investments in futures contracts. External money managers enter into certain derivative instruments primarily to enhance the performance and reduce the volatility of the PSPRS', the EORP's, and the CORP's portfolios, to gain or hedge exposure to certain markets, and to manage interest rate risk. The external managers are required to follow certain controls, documentation and risk management procedures when employing these financial instruments.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Changes in fair value for the year and outstanding futures contracts as of June 30, 2018 were as follows (expressed in thousands):

Investment Derivatives by Type					
Investment Derivatives	Changes in Fair Value (1)		Classification	Fair Value at June 30, 2018	
	Classification	Amount (2)		Amount	Notional
Foreign currency forwards	Net (decrease) in fair value of investments	\$ (298)	Not applicable	\$ —	\$ —
US equity index futures	Net increase in fair value of investments	28,771	Equity securities	(5,645)	265,490
Total		<u>\$ 28,473</u>		<u>\$ (5,645)</u>	<u>\$ 265,490</u>

3. Arizona State University

Refer to Note 6.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 <https://aztreasury.gov>.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 3. RECEIVABLES/UNAVAILABLE REVENUE/UNEARNED REVENUE

A. TAXES RECEIVABLE

At June 30, 2018, taxes receivable were as follows (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-major Governmental Funds	Non-major Enterprise Funds	Government-wide Total
Sales	\$ 553,790	\$ —	\$ 63,775	\$ —	\$ 617,565
Income - individual and corporate	203,637	—	—	—	203,637
Motor vehicle and fuel	—	67,273	—	—	67,273
Luxury	7,796	—	20,876	—	28,672
Unemployment	—	—	—	94,549	94,549
Other	—	—	7,223	—	7,223
Gross taxes receivable	765,223	67,273	91,874	94,549	1,018,919
Allowance for uncollectible taxes	(270,619)	—	—	—	(270,619)
Net Taxes Receivable	\$ 494,604	\$ 67,273	\$ 91,874	\$ 94,549	\$ 748,300

B. UNAVAILABLE REVENUE

At June 30, 2018, 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
Unavailable Revenue for Governmental Funds:					
Delinquent sales tax	\$ 155,193	\$ —	\$ —	\$ —	\$ 155,193
Delinquent income tax	64,641	—	—	—	64,641
Tobacco settlement	43,500	—	—	—	43,500
Child support administrative reimbursements	4,150	—	—	—	4,150
Grants	123,969	28,086	—	—	152,055
Drug rebates	39,051	—	—	—	39,051
Land sales receivable	—	—	281,700	—	281,700
Land leases receivable	—	—	4,182	—	4,182
Other	1,626	—	—	453	2,079
Total Unavailable Revenue for Governmental Funds	\$ 432,130	\$ 28,086	\$ 285,882	\$ 453	\$ 746,551

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

C. UNEARNED REVENUE

At June 30, 2018, the components of unearned revenue were as follows (expressed in thousands):

Unearned Revenue for Governmental Funds:	<u>Current</u>	<u>Noncurrent</u>	<u>Total Unearned Revenue</u>
General Fund:			
Advance insurance premium taxes	\$ 51,723	\$ —	\$ 51,723
Advance county acute and long term care payments	23,202	—	23,202
Other	128	—	128
Transportation & Aviation Planning, Highway			
Maintenance & Safety Fund:			
Magazine subscriptions	1,649	—	1,649
Land Endowments Fund:			
Advance land lease payments	28,085	77,349	105,434
Non-Major Funds:			
Advance payments for Hawaii/Arizona PMMIS Alliance	752	—	752
Advance renewal of contractors' license assessment	846	—	846
Total Unearned Revenue for Governmental Funds	<u>\$ 106,385</u>	<u>\$ 77,349</u>	<u>\$ 183,734</u>
 Unearned Revenue for Proprietary Funds:	 <u>Current</u>		
Universities:			
Unexpended cash advances received	\$ 75,227		
Auxiliary sales and services	11,213		
Student tuition and fees	115,041		
Deposits	1,328		
Other	3,217		
Non-Major Funds:			
Other	66		
Total Unearned Revenue for Proprietary Funds	<u>\$ 206,092</u>		

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 4. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2018 were as follows (expressed in thousands):

	Primary Government				
	Beginning Balance	Additions	Retirements	Adjustments & Reclassifications	Ending Balance
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 3,561,056	\$ 161,106	\$ (68,513)	\$ 3	\$ 3,653,652
Construction in progress	1,960,775	640,700	—	(132,838)	2,468,637
Development in progress	53,854	19,220	(35,285)	1	37,790
Infrastructure	16,189,651	7,296	—	104,591	16,301,538
Total Non-depreciable Capital Assets	21,765,336	828,322	(103,798)	(28,243)	22,461,617
Depreciable capital assets:					
Buildings	2,493,812	12,432	(13,807)	8,018	2,500,455
Improvements other than buildings	187,826	6,834	(3,803)	1,004	191,861
Equipment	935,461	68,948	(85,893)	26,163	944,679
Software and other intangibles	345,747	53,096	(14)	3,165	401,994
Infrastructure	27,256	1,655	—	(27)	28,884
Total Depreciable Capital Assets	3,990,102	142,965	(103,517)	38,323	4,067,873
Less accumulated depreciation for:					
Buildings	(1,012,384)	(58,539)	8,350	(5,128)	(1,067,701)
Improvements other than buildings	(127,444)	(7,428)	21	63	(134,788)
Equipment	(654,283)	(72,836)	78,856	(7,322)	(655,585)
Software and other intangibles	(214,027)	(31,233)	14	(54)	(245,300)
Infrastructure	(13,901)	(591)	—	(246)	(14,738)
Total Accumulated Depreciation	(2,022,039)	(170,627)	87,241	(12,687)	(2,118,112)
Total Depreciable Capital Assets, Net	1,968,063	(27,662)	(16,276)	25,636	1,949,761
Total Governmental Activities Capital Assets, Net	\$ 23,733,399	\$ 800,660	\$ (120,074)	\$ (2,607)	\$ 24,411,378
Business-type Activities:					
Non-depreciable capital assets:					
Land	\$ 253,003	\$ 18,463	\$ (143)	\$ —	\$ 271,323
Construction in progress	528,026	298,019	(91,367)	(152,240)	582,438
Development in progress	70,322	17,868	—	—	88,190
Collections	21,368	206	—	—	21,574
Total Non-depreciable Capital Assets	872,719	334,556	(91,510)	(152,240)	963,525
Depreciable capital assets:					
Buildings	6,364,916	266,941	(11,836)	149,248	6,769,269
Improvements other than buildings	15,458	294	—	(13)	15,739
Equipment	1,750,447	111,985	(244,826)	1,645	1,619,251
Software and other intangibles	138,205	—	—	—	138,205
Infrastructure	574,485	27,038	—	1,346	602,869
Total Depreciable Capital Assets	8,843,511	406,258	(256,662)	152,226	9,145,333
Less accumulated depreciation for:					
Buildings	(2,613,962)	(191,518)	7,749	(3)	(2,797,734)
Improvements other than buildings	(14,650)	(127)	—	—	(14,777)
Equipment	(1,344,147)	(95,601)	242,484	(6)	(1,197,270)
Software and other intangibles	(107,695)	(9,463)	—	—	(117,158)
Infrastructure	(257,471)	(18,290)	—	—	(275,761)
Total Accumulated Depreciation	(4,337,925)	(314,999)	250,233	(9)	(4,402,700)
Total Depreciable Capital Assets, Net	4,505,586	91,259	(6,429)	152,217	4,742,633
Total Business-type Activities Capital Assets, Net	\$ 5,378,305	\$ 425,815	\$ (97,939)	\$ (23)	\$ 5,706,158

For beginning balance restatement detail, see Note 8. B.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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

General government	\$	28,958
Health and welfare		39,395
Inspection and regulation		1,040
Education		2,487
Protection and safety		64,049
Transportation		24,013
Natural resources		10,685
Total Governmental Activities	\$	<u>170,627</u>

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

Universities	\$	311,209
Other		3,790
Total Business-type Activities	\$	<u>314,999</u>

NOTE 5. PENSION AND OTHER POSTEMPLOYMENT BENEFITS

The State contributes to nineteen pension 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 and the cost-sharing multiple-employer defined benefit pension plan are not further disclosed because of their relative insignificance to the State’s financial statements. Employees participate in either the agent plan or the cost-sharing plan based on their date of hire. 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.

The State contributes to eighteen OPEB plans. The Arizona Department of Administration (ADOA) Defined Benefit Healthcare Plan is described below. The ASRS Health Benefit Supplement Fund (HBS), ASRS Long Term Disability Fund (LTD), and EORP health insurance premium subsidy cost-sharing multiple-employer defined benefit post-employment plans are not further disclosed because of their relative insignificance to the State’s financial statements. The PSPRS’ Department of Public Safety, 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 post-employment plans are not further disclosed because of their relative insignificance to the State’s financial statements. The CORP’s Department of Corrections, Department of Juvenile Corrections, Department of Public Safety Dispatchers, and Department of Public Safety Detention agent multiple-employer defined benefit post-employment plans are not further disclosed because of their relative insignificance to the State’s financial statements. Also, the PSPRS health insurance premium subsidy cost-sharing multiple-employer defined benefit post-employment plan is not further disclosed because of its relative insignificance to the State’s financial statements.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Changes in the State's net pension liability and total OPEB (asset)/liability during the fiscal year ended June 30, 2018, were as follows (expressed in thousands):

	Pension		OPEB	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Beginning balance, as restated	\$ 4,101,177	\$ 1,470,909	\$ 687,961	\$ 460,875
Increases	1,523,412	302,186	2,114	22,863
Decreases	(1,134,292)	(336,608)	(174,723)	(172,891)
Ending balance	<u>\$ 4,490,297</u>	<u>\$ 1,436,487</u>	<u>\$ 515,352</u>	<u>\$ 310,847</u>

For the year ended June 30, 2018, the State recognized pension expense for all plans to which it contributes of \$802.7 million, \$36.8 million of grant expense for EORP, and \$5.7 million of OPEB expense. Also, the State reported \$282.5 million of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes, \$4.1 million of grant expenditures related to EORP, and \$23.5 million of OPEB contributions as expenditures in the governmental funds related to all OPEB plans to which it contributes.

A. ARIZONA STATE RETIREMENT SYSTEM

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

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

* With actuarially reduced benefits.

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

Contributions—In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, 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 10.9 percent of the active members' annual covered payroll. In addition, the State was required by statute to contribute at the actuarially determined rate of 9.26 percent of annual covered payroll of retired members who worked during fiscal year 2018 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, 2018, were \$236.9 million.

During fiscal year 2018, the State paid for ASRS pension contributions from governmental funds as follows: 70.73 percent from the General Fund, 14.23 percent from major funds, and 15.03 percent from other funds.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Pension Liability—At June 30, 2018, the State reported a liability of \$3.4 billion for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2017. 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, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes 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, 2017. The State’s proportion measured as of June 30, 2017, was 21.89 percent, which was an increase of .14 from its proportion measured as of June 30, 2016.

The net pension liability measured as of June 30, 2018, 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 liability as a result of these changes is not known.

Pension Expense and Deferred Outflows/Inflows of Resources—For the year ended June 30, 2018, the State recognized pension expense for ASRS of \$149.8 million. At June 30, 2018, 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	\$ —	\$ 102,272
Changes of assumptions or other inputs	148,134	101,986
Net difference between projected and actual earnings on pension plan investments	24,486	—
Changes in proportion and differences between State contributions and proportionate share of contributions	91,080	67,018
State contributions subsequent to the measurement date	236,938	—
Total	<u>\$ 500,638</u>	<u>\$ 271,276</u>

The \$236.9 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, 2019. 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>	
2019	\$ (122,361)
2020	149,995
2021	43,243
2022	(78,453)

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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

Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
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, 2016 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
State's proportionate share of the net pension liability	\$ 4,377,691	\$ 3,410,699	\$ 2,602,694

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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

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

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

	Initial Membership Date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
PSPRS Retirement and Disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, 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%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor Benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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

Retirement and survivor benefits are subject to automatic cost-of-living adjustments. The adjustments are based on inflation for PSPRS and excess investment earnings for CORP. 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, 2018, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS PSA	CORP DCA
Retirees or beneficiaries currently receiving benefits	1,344	3,177
Inactive employees entitled to but not yet receiving benefits	147	1,248
Active employees	1,059	7,958
Total	2,550	12,383

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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. Contribution rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<u>Active Member - Pension</u>	<u>State - Pension</u>
PSPRS - PSA Tiers 1 & 2	7.65% - 11.65%	86.97%
PSPRS - PSA Tier 3	10.28%	79.93%
CORP - DCA	8.41%	20.83%

In addition, statute required the State to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked during fiscal year 2018 for the State in positions that an employee who contributes to the PSPRS or CORP would typically fill.

	<u>Pension</u>
PSPRS - PSA	69.65%
CORP - DCA	13.73%

The State's contributions to the pension plan for the year ended June 30, 2018, were (expressed in thousands):

	<u>Pension</u>
PSPRS - PSA Tiers 1 & 2	\$ 63,506
PSPRS - PSA Tier 3	203
CORP - DCA	66,031

During fiscal year 2018, the State paid for PSPRS and CORP pension contributions as follows: 58.00 percent from the General Fund and 42.00 percent from other funds.

Pension Liability—At June 30, 2018, the State reported the following net pension liabilities (expressed in thousands):

	<u>Net Pension Liability</u>
PSPRS - PSA	\$ 830,919
CORP - DCA	993,388

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

The net pension liabilities were measured as of June 30, 2017, 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, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for CORP also reflect changes of benefit terms for a court decision that increased cost-of-living adjustments for retirees who became members before July 20, 2011. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011.

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, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5%
Price inflation	2.5%
Permanent benefit increase	Included
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Discount Rate—At June 30, 2017, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate 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 pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Position Liability (a) - (b)
PSPRS-PSA			
Balances at June 30, 2017	\$ 1,090,807	\$ 327,557	\$ 763,250
Changes for the year:			
Service cost	18,914	—	18,914
Interest on the total pension liability	79,711	—	79,711
Changes of benefit terms	10,719	—	10,719
Differences between expected and actual experience in the measurement of the pension liability	17,144	—	17,144
Changes of assumptions or other inputs	49,120	—	49,120
Contributions - employer	—	61,001	(61,001)
Contributions - employee	—	8,899	(8,899)
Net investment income	—	38,483	(38,483)
Benefit payments, including refunds of employee contributions	(74,906)	(74,906)	—
Administrative expense	—	(341)	341
Other changes	—	(103)	103
Net changes	100,702	33,033	67,669
Balances at June 30, 2018	\$ 1,191,509	\$ 360,590	\$ 830,919

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
CORP - DCA			
Balances at June 30, 2017	\$ 1,529,975	\$ 791,084	\$ 738,891
Changes for the year:			
Service cost	51,631	—	51,631
Interest on the total pension liability	113,227	—	113,227
Changes of benefit terms	239,128	—	239,128
Differences between expected and actual experience in the measurement of the pension liability	(11,373)	—	(11,373)
Changes of assumptions or other inputs	46,154	—	46,154
Contributions – employer	—	62,909	(62,909)
Contributions – employee	—	28,539	(28,539)
Net investment income	—	94,033	(94,033)
Benefit payments, including refunds of employee contributions	(92,181)	(92,181)	—
Administrative expense	—	(823)	823
Other changes	—	(388)	388
Net changes	<u>346,586</u>	<u>92,089</u>	<u>254,497</u>
Balances at June 30, 2018	<u>\$ 1,876,561</u>	<u>\$ 883,173</u>	<u>\$ 993,388</u>

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 7.4 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 (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate (expressed in thousands):

	1% Decrease (6.4%)	Current Discount Rate (7.4%)	1% Increase (8.4%)
PSPRS - PSA			
Net pension liability	\$ 975,784	\$ 830,919	\$ 711,341
CORP-DCA			
Net pension liability	1,272,168	993,388	768,655

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, 2018, the State recognized the following pension expense (expressed in thousands):

	Pension Expense
PSPRS - PSA	\$ 119,934
CORP - DCA	346,379

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Deferred Outflows/Inflows of Resources—At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

PSPRS - PSA	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,467	\$ 7,389
Changes of assumptions or other inputs	67,962	—
Net difference between projected and actual earnings on pension plan investments	5,326	—
State contributions subsequent to the measurement date	63,709	—
Total	<u>\$ 150,464</u>	<u>\$ 7,389</u>

CORP - DCA	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 48,166
Changes of assumptions or other inputs	114,609	—
Net difference between projected and actual earnings on pension plan investments	11,150	—
State contributions subsequent to the measurement date	66,031	—
Total	<u>\$ 191,790</u>	<u>\$ 48,166</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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ending June 30	PSPRS PSA	CORP DCA
2019	\$ 29,469	\$ 28,978
2020	24,646	32,607
2021	18,667	11,069
2022	6,584	2,002
2023	—	2,937

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

C. ELECTED OFFICIALS' RETIREMENT PLAN

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

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

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

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

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2018, statute required active EORP members to contribute 7 or 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 during fiscal year 2018 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, 2018, were \$7.7 million, including \$4.1 million related to State support, as a nonemployer contributing entity.

During fiscal year 2018, the State paid for EORP pension contributions as follows: 97.50 percent from the General Fund and 2.50 percent from other funds. In addition, during fiscal year 2018, the State, as a nonemployer contributing entity, paid for EORP pension contributions as follows: 100.00 percent from the General Fund.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Pension Liability—At June 30, 2018, 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	\$ 226,750
State's proportionate share of the EORP net pension liability, as a nonemployer contributing entity	170,466
Total	<u>\$ 397,216</u>

The net pension liability was measured as of June 30, 2017, 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, 2017, reflects changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liability also reflects changes-of-benefit terms for a court decision that increased cost-of-living adjustments for retirees and decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the State's net pension liability as a result of the refunds is not known.

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, 2017. The State's proportion measured as of June 30, 2017, was 18.61 percent, which was an increase of .17 from its proportion measured as of June 30, 2016. The State's proportion, as a nonemployer contributing entity, measured as of June 30, 2017, was 13.99 percent, which was an increase of 0.03 from its proportion measured as of June 30, 2016.

Pension Expense, Grant Expense, and Deferred Outflows/Inflows of Resources—For the year ended June 30, 2018, the State recognized pension expense for EORP of \$69.1 million and revenue of \$1.6 million for the designated court fees. In addition, the State recognized grant expense of \$36.8 million, as a result of its requirement to contribute to EORP as a nonemployer contributing entity. At June 30, 2018, the State and the State, as a result of its requirement to contribute to EORP as a nonemployer contributing entity, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	The State		The State, as a nonemployer contributing entity	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 1,965	\$ —	\$ 1,478
Changes of assumptions or other inputs	8,850	—	6,654	—
Net difference between projected and actual earnings on pension plan investments	1,390	—	1,045	—
Changes in proportion and differences between State contributions and proportionate share of contributions	1,701	1,255	272	5,492
State contributions subsequent to the measurement date	3,564	—	4,115	—
Total	<u>\$ 15,505</u>	<u>\$ 3,220</u>	<u>\$ 12,086</u>	<u>\$ 6,970</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2019. 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>
2019	\$ 7,137	\$ (156)
2020	1,665	1,218
2021	367	276
2022	(448)	(337)

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5%
Price inflation	2.5%
Permanent benefit increase	Included
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

The long-term expected rate of return on EORP pension plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount Rate—At June 30, 2017, the discount rate used to measure the EORP total pension liability was 3.91 percent, which was an increase of 0.23 from the discount rate used as of June 30, 2016. 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 7.4 percent was applied to periods of projected benefit payments through the year ended June 30, 2026. A municipal bond rate of 3.56 percent obtained from the Fidelity 20-year Municipal GO AA Index, as of June 30, 2017, was applied to periods of projected benefit payments after June 30, 2026.

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 3.91 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 (2.91 percent) or 1 percentage point higher (4.91 percent) than the current rate (expressed in thousands):

	1% Decrease (2.91%)	Current Discount Rate (3.91%)	1% Increase (4.91%)
State's proportionate share of the net pension liability	\$ 267,852	\$ 226,750	\$ 193,229
State's proportionate share of the net pension liability, as a nonemployer contributing entity	201,365	170,466	145,265

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

D. ARIZONA DEPARTMENT OF ADMINISTRATION DEFINED BENEFIT HEALTHCARE PLAN

Plan Description-The 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. ADOA does not issue a separate, publicly available financial report.

Benefits Provided-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 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.

Funding Policy-The ADOA's current funding policy is pay-as-you-go for OPEB benefits. Therefore, the current funded ratio (ratio of assets to the Total OPEB Liability) is 0.00% and there are no dedicated assets at this time to offset the total OPEB liability.

Contributions-The State's contribution to the ADOA OPEB plan for the year ended June 30, 2018, was \$26.2 million.

Employees Covered by Benefit Terms-At June 30, 2018, the following employees were covered by the ADOA OPEB plan's benefit terms:

Retirees or beneficiaries currently receiving benefits	7,582
Active employees	<u>56,162</u>
Total	63,744

OPEB Liability-At June 30, 2018, the State reported a liability of \$846.8 million for the ADOA total OPEB liability. The total OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

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

Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Salary increases	2.7% to 7.2% varying by years of service
Discount rate	3.58%
Healthcare cost trend rates:	
Medical (pre-65)	6.5% graded to 4.5% by 0.5%
Medical (post-65)	4.5%
Prescription drug	9.0% graded to 4.5% by 0.5%
Administrative costs	3.0%
Contribution trend rates	7.0% graded to 4.5% by 0.5%
Mortality rates:	
Employees	RP-2014 Employee mortality tables projected generationally from 2014 with 1% improvement per year
Healthy retirees and spouses	2017 State retirees of Arizona mortality tables projected generationally from 2017 with 1% improvement per year
Disabled retirees	RP-2014 disabled retiree mortality tables projected generationally from 2014 with 1% improvement per year

Benefit projections assume the specified premium amount will follow the current pattern of practice of being paid for entirely by the retiree or on behalf of the retiree. The specified premium amounts are projected to increase at the contribution trend rates noted above. Actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Discount Rate-The discount rate was based on the Bond Buyer 20-Bond General Obligation Municipal Bond index.

Changes in the Total OPEB Liability

(expressed in thousands):

	Increase (Decrease)
	Total OPEB Liability
Balance at June 30, 2017	\$ 1,143,616
Changes for the year:	
Service cost	87,252
Interest on the total OPEB liability	32,182
Changes of benefit terms	(83,199)
Differences between expected and actual experience in the measurement of the OPEB liability	(30,663)
Changes of assumptions or other inputs	(273,577)
Benefit payments	(28,848)
Net changes	<u>(296,853)</u>
Balance at June 30, 2018	<u>\$ 846,763</u>

The total OPEB liability as of June 30, 2017 reflects the following changes of benefit terms and actuarial assumptions:

- A limit was placed on the out-of-pocket maximum for the EPO health insurance option and copays were increased for all health insurance options.
- The discount rate increased due to changes in the bond index.
- Per capita costs and contributions and related trend rates were updated to reflect updated experience.
- Assumed retirement rates, turnover rates, disability incidence rates, and mortality rates for healthy and disabled lives were updated to be the same as those used for ASRS' annual actuarial valuation.

Sensitivity of the State's Total OPEB Liability to Changes in the Discount Rate-The following table presents the State's total OPEB liabilities calculated using the discount rate of 3.58 percent, as well as what the State's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58 percent) or 1 percentage point higher (4.58 percent) than the current rate (expressed in thousands):

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	\$ 994,092	\$ 846,763	\$ 730,386

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Sensitivity of the State’s Total OPEB Liability to Changes in the Healthcare Cost and Contribution Trend Rates-The following table presents the State’s total OPEB liabilities calculated using the current healthcare cost and contribution trend rates stated in the actuarial assumptions, as well as what the State’s total OPEB liability would be if it were calculated using healthcare cost and contribution trend rates that are 1 percentage point lower or 1 percentage point higher than the current rates (expressed in thousands):

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 713,010	\$ 846,763	\$ 1,020,331

OPEB Expense and Deferred Outflows/Inflows of Resources-For the year ended June 30, 2018, the State recognized OPEB expense of \$3.9 million. At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB 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	\$ —	\$ 26,577
Changes of assumptions or other inputs	—	237,520
State benefit payments subsequent to the measurement date	26,182	—
Total	<u>\$ 26,182</u>	<u>\$ 264,097</u>

The \$26.2 million reported as deferred outflows of resources related to OPEB resulting from State benefit payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

<u>Year Ending June 30</u>	
2019	\$ (40,144)
2020	(40,144)
2021	(40,144)
2022	(40,144)
2023	(40,144)
Thereafter	(63,377)

NOTE 6. 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, 2018, pledged revenues totaled \$207.5 million, of which 18.1% (\$37.5 million) was

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$412.5 million.

2. Arizona Department of Transportation

The ADOT has issued Senior and Subordinated Lien Highway Revenue Bonds to provide funds for acquisition of right-of-way, design, and construction of federal and state highways. The balance of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$1.4 billion.

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

The ADOT has pledged future motor vehicle and related fuel fees and taxes to repay \$1.4 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 \$1.9 billion. Principal and interest paid for the current year and total pledged revenues were \$144.2 million and \$624.9 million, respectively. The annual principal and interest payments on the bonds required 23.1% 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 \$643.3 million.

The ADOT has pledged future transportation excise taxes to repay \$575.0 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 and to refund certain maturities of various outstanding Transportation Excise Tax Revenue bond issues. 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 \$691.9 million. Principal and interest paid for the current year and total pledged revenues were \$99.7 million and \$290.9 million, respectively. The annual principal and interest payments on the bonds required 34.3% of the pledged revenues.

In the 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.

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 current and outstanding fiscal year debt related to State school improvement revenue bonds, State school improvement revenue refunding bonds, and State school trust revenue refunding bonds. 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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2018, pledged revenues totaled \$776.8 million, of which 13.8% (\$107.5 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 \$128.2 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 January 30, 2018, the U of A sold System Revenue Bonds Series 2018A (2018A Bonds) for \$93.995 million and Series 2018B (2018B Bonds) for \$16.840 million dated February 14, 2018 as described in the following table.

Series	Amount	Description	Interest Rate Range	Maturity Dates
2018A	\$ 75,860,000	Serial Bonds	3.25 - 5.00%	2019 - 2040
	18,135,000	Term Bonds	4.00 - 5.00%	June 1, 2043
2018B	\$ 11,890,000	Serial Bonds	3.00 - 5.00%	2019 - 2038
	4,950,000	Term Bonds	3.50%	June 1, 2043

The 2018A Serial Bonds include bonds with maturity dates on June 1, 2026 through and including June 1, 2035 and June 1, 2036 through and including any date thereafter and will be subject to optional redemption on June 1, 2025 and June 1, 2028, respectively, without premium. The 2018A Term Bonds with maturity on June 1, 2043 are subject to mandatory redemption without premium. The 2018A Bonds sold at a premium of \$12.330 million. The U of A realized net proceeds of \$105.725 million after payment of \$600 thousand for issuance costs and underwriter discounts. The net proceeds were used to finance the Honors College Community Support and the Auxiliary Services Project, and the Intercollegiate Athletics Project.

The 2018B Bonds maturing on or after June 1, 2029, will be subject to optional redemption on June 1, 2028 and on any date thereafter without premium. The 2018B Bonds with maturity on June 1, 2043 are subject to mandatory redemption without premium. The 2018B Bonds sold at a premium of \$1.308 million. The U of A realized net proceeds of \$17.999 million after payment of \$149 thousand for issuance costs and underwriter discounts. The net proceeds were used to finance the Building 90 Deferred Maintenance Project.

In fiscal year 2016, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2009A. At June 30, 2018, the outstanding principal balance of the refunded bonds was \$159.305 million, which will be paid by investments held in an irrevocable trust with fair value of \$163.313 million. Accordingly, the trust account assets and liability for these defeased bonds are not included in the accompanying financial statements.

In fiscal year 2017, the U of A refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2012A. At June 30, 2018, the outstanding principal balance of the refunded bonds was \$9.650 million, which will be paid by investments held in an irrevocable trust with a fair value of \$11.067 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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 6.6% reduction (totaling \$103 thousand) in the federal interest subsidy for the August 1, 2018 debt service payment and a 6.2% reduction (totaling \$188 thousand) in the federal interest subsidy for the February 1 and August 1, 2019 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, 2018. 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, 2018, pledged revenues totaled \$1.28 billion, of which 6.8% (\$86.6 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 \$1.96 billion.

b. Northern Arizona University

On November 15, 2017, the NAU sold \$24.260 million of System Revenue Bonds Series 2017A with an interest rate of 2.58%. The purpose of the sale was for the construction and improvements of the Honors Community Academic and Student Support Space Project and Utility Infrastructure. The projects are located in the center of the NAU campus at the northeast intersection of Knoles Drive and University Avenue. The sale was a private placement with the purchaser being Compass Mortgage Corporation.

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 2018, the Federal Government reduced federal direct payment claims filed between October 1, 2017 and September 30, 2018 by 6.6% due to the federal budget sequestration resulting in a \$242 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, 2018. 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 \$290 million for the prior five years. For fiscal year 2018, pledged revenues totaled \$323 million, of which 10.0% (\$32.2 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 \$741.4 million.

c. Arizona State University

As of June 30, 2018, 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, 2018 totaled \$264.2 million.

The ASU has pledged gross revenues as defined in the bond indentures towards the payment of debt related to various senior lien system revenue bonds and subordinate bonds outstanding at June 30, 2018. 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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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, 2018, pledged revenues totaled \$1.7 billion, of which 5.5 percent (\$90.8 million, net of federal direct payments) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the ASU's senior and subordinate revenue bonds through final maturity of July 1, 2047 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, 2018 totaled \$3.3 million with annual debt service payments of approximately \$1.2 million through July 1, 2021.

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

In December 2017, the ASU issued \$199.9 million of system revenue and refunding bonds, Series 2017A, B, and C, with an average maturity of 14.9 years and an average interest rate of 3.38%. The bonds were issued to fund the Armstrong Hall and Ross Blakley Library Renovation projects, classroom and laboratory renovations, building and infrastructure enhancements and modifications, to currently refund the remaining 2007B Bonds and to refund in advance of maturity portions of the Series 2009A, 2010C, 2012A and 2013A system revenue bonds totaling \$2.8 million, \$3.6 million, \$83.7 million, and \$56.6 million, respectively. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6.7 million. This difference is reported on the accompanying financial statements as a deferred outflow of resources and is amortized on a straight-line basis annually as a component of interest expense. The refunded debt is considered defeased and related liabilities are not included in the accompanying financial statements. The issuance of the refunding bonds, with an average maturity of 15.8 years and an average interest rate of 3.38%, resulted in a \$17.5 million reduction in future debt service payments with an economic gain of \$13.0 million based upon the present value savings.

The Taxable Series 2010A System Revenue Bonds and the Taxable Series 2010A SPEED Revenue Bonds were issued as Build America Bonds under the provisions of the ARRA. As such, the ASU is eligible to receive Federal Direct Payments from the U.S. Treasury equal to 35% of the interest owed on each interest payment date. The amount paid to the ASU by the Federal government may be reduced or limited due to such issues as failure by the ASU to submit the required information, offsets to reflect any amounts owed by the ASU to the Federal government, or changes in the law that would reduce or eliminate such payments. During fiscal year 2018, the ASU received Federal Direct Payments totaling \$3.5 million, net of a \$300 thousand or 6.6% 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 \$82.9 million with final maturities of July 1, 2034. The interest rate in effect on June 30, 2018 was 1.48% for the Series 2008A bonds and 1.45% 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, 2018 totaled \$75.5 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 \$82.4 million notional amount at June 30, 2018 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% 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, 2018 was 1.51%.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

At June 30, 2018, the synthetic fixed interest rate on the bonds was:

Interest Rate Swap	Terms	Rates (%)
Fixed payment to counterparty	Fixed	3.91
Variable payment from counterparty	SIFMA	(1.51)
Net interest rate swap payments		2.40
Variable-rate bond coupon payments	Spread to SIFMA	1.47
Synthetic fixed interest rate on bonds		3.87

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

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

As of June 30, 2018, 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 AA- by Fitch, A+ by S&P, and Aa3 by Moody's as of June 30, 2018. 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, 2018, the swap had a fair value of \$(11.0) million, which represents the cost to the ASU to terminate the swap. The June 30, 2017 fair value was \$(15.4) 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, 2018 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2018
Governmental Activities:				
Department of Transportation	2009-2017	2019-2038	1.83-5.00%	\$ 1,934,540
School Facilities Board	2013	2019-2020	1.76-2.01%	124,640
Department of Administration	2010	2019-2029	3.5-5.00%	312,585
Business-type Activities:				
University Revenue Bonds	2008-2018	2019-2049	1.47-6.64%	3,109,245

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2018 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service						
	Governmental Activities			Business-type Activities			
	Total Principal	Total Interest	Total	Total Principal	Total Interest	Net Payments (Receipts) on Swap Agreement	Total
2019	\$ 234,145	\$ 111,388	\$ 345,533	\$ 93,970	\$ 148,697	\$ 1,901	\$ 244,568
2020	242,365	102,900	345,265	110,780	142,947	1,821	255,548
2021	187,050	93,644	280,694	111,070	137,999	1,737	250,806
2022	196,405	84,294	280,699	116,055	132,770	1,648	250,473
2023	203,060	74,737	277,797	124,835	127,060	1,555	253,450
2024-2028	778,170	231,677	1,009,847	677,855	539,432	6,208	1,223,495
2029-2033	405,765	83,881	489,646	649,815	376,046	3,076	1,028,937
2034-2038	124,805	17,776	142,581	566,135	229,497	167	795,799
2039-2043	—	—	—	435,695	101,393	—	537,088
2044-2048	—	—	—	219,525	18,083	—	237,608
2049	—	—	—	3,510	70	—	3,580
Total	\$ 2,371,765	\$ 800,297	\$ 3,172,062	\$ 3,109,245	\$ 1,953,994	\$ 18,113	\$ 5,081,352

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 \$129.5 million.

On September 20, 2017, the ADOT issued \$62.6 million of GANs, Series 2017A, with an interest rate of 5.0% and serial maturities ranging from 2019 to 2032. Net proceeds amounted to \$75.0 million, after receipt of \$12.8 million of original issue premium and payment of \$425 thousand of issuance costs and underwriter's discount. GAN proceeds are being used to fund I-40 and I-10 projects in the ADOT's 5-year Capital Plan.

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

The ADOT has pledged federal revenues to repay \$177.4 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 and to refund certain maturities of various outstanding GANs. The GANs are payable solely from federal revenues and are payable through 2032. The total principal and interest remaining to be paid on the GANs is \$229.9 million. Principal and interest paid for the current year and total pledged revenues were \$23.5 million and \$786.1 million, respectively. The annual principal and interest payments on the GANs required 3.0% of the pledged revenues.

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

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2018
Governmental Activities:				
Department of Transportation	2011-2018	2019-2032	4.00 - 5.00%	\$ 177,420

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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

Fiscal Year	Annual Debt Service		
	Governmental Activities		
	Total Principal	Total Interest	Total Debt Service
2019	\$ 16,000	\$ 8,838	\$ 24,838
2020	16,775	8,066	24,841
2021	16,720	7,230	23,950
2022	17,560	6,396	23,956
2023	18,440	5,518	23,958
2024-2028	70,335	13,700	84,035
2029-2032	21,590	2,764	24,354
Total	<u>\$ 177,420</u>	<u>\$ 52,512</u>	<u>\$ 229,932</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 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 September 28, 2017, the State issued Refunding COPs Series 2017 (2017 COPs) for \$31.6 million with an interest rate of 1.75% and a final maturity date of fiscal year 2028. The 2017 COPs are subject to mandatory and optional redemption prior to maturity pursuant to the debt documents. The State realized net proceeds from the 2017 COPs of \$31.3 million after payment of \$225 thousand for issuance costs. The net proceeds were used to advance-refund the remaining portion of Series 2008A COPs with an outstanding principal balance of \$30.8 million. The advance-refunding resulted in a debt service savings of \$1.6 million and a net present value economic gain of \$1.5 million (difference between the present values of the old and new debt service payments). The advance-refunding also resulted in an immaterial difference between the reacquisition price and the net carrying amount of the refunded debt of \$1.2 million. This immaterial difference was charged against interest expense during the current fiscal year.

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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.

On January 17, 2018, the U of A issued Refunding COPs Series 2018A (2018A COPs) for \$27.135 million and Series 2018B (2018B COPs) for \$32.430 million dated February 8, 2018 as described below.

The 2018A COPs are subject to extraordinary redemption dates pursuant to the debt document. The 2018A COPs sold at a premium of \$2.062 million. The U of A realized net proceeds of \$28.960 million after payment of \$237 thousand for issuance costs and underwriter discounts. The net proceeds were used to current refund \$28.695 million of COPs Series 2007B. The refunding generated a net present value economic gain of \$1.612 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The refunding decreases the U of A's debt service by \$125 thousand in the first year and an average of \$390 thousand in years two through five. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$775 thousand. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense through the year 2022 using the straight-line method.

The 2018B COPs maturing on and after June 1, 2029 are subject to optional redemption without premium. The 2018B COPs sold at a premium of \$5.411 million. The U of A realized net proceeds of \$37.561 million after payment of \$280 thousand for issuance costs and underwriter discounts. The net proceeds were used to current refund \$37.255 million of COPs Series 2007D. The refunding generated a net present value economic gain of \$3.464 million (difference between the present values of the old debt and the new debt service payments) for the U of A. The refunding decreases the U of A's debt service by \$101 thousand in the first year and an average of \$306 thousand in years two through fourteen. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.109 million. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized to interest expense through the year 2031 using the straight-line method.

b. Arizona State University

At June 30, 2018, 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.

In July 2017, the ASU issued \$44.8 million of refunding COPs to refund the remaining 2006 Refunding COPs. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of (\$0.9) million. This difference is reported on the accompanying financial statements as a deferred inflow of resources and is amortized on a straight-line basis annually

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

as a component of interest expense. The refunded debt is considered defeased and related liabilities are not included in the accompanying financial statements. The issuance of refunding COPs with an average maturity of 4.3 years and an average interest rate of 1.87% resulted in a \$6.1 million reduction in future debt service payments, with an economic gain of \$5.6 million based on present value savings.

Securities and cash restricted for COP debt service held by the trustee at June 30, 2018 totaled \$7.6 million.

A summary of the COPs issued as of June 30, 2018 is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Governmental Activities:					
Department of Administration:					
General Fund Budget Reconciliation 2010A	2010	2030	\$ 709,090	\$ 538,720	4.00 - 5.25
General Fund Budget Reconciliation 2010B	2010	2030	289,705	218,010	3.00 - 5.00
Refund 2001 PLTO, 2002A/2004B COPs	2013	2029	62,630	31,360	3.00 - 5.00
Refund 2005 Gov Office Lease Rev Capitol Mall, 2008A COP	2016	2028	163,995	154,440	3.00 - 5.00
Kingman Prison 2016	2017	2025	119,880	100,585	2.00 - 5.00
Refund remaining portion of 2008A COP	2018	2028	31,570	31,570	1.75
School Facilities Board:					
New School Construction 2008	2009	2019	580,035	43,735	5.00 - 5.75
Refunding Certificates of 2003B	2011	2020	11,100	11,100	3.00 - 3.50
Refunding Certificates of 2004B	2011	2020	10,000	10,000	3.00 - 5.00
Refunding Certificates of 2008	2011	2020	37,685	37,685	3.00 - 5.00
Qualified School Construction 2010	2011	2028	91,325	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	8,830	5.00
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
Total Governmental Activities			<u>\$ 2,565,540</u>	<u>\$ 1,585,995</u>	

Project	Issue Date	Final Maturity Date	Original Amount Issued	Outstanding Balance	Interest Rates
Business-type Activities:					
Arizona State University:					
2006 Certificates of Participation	2006	2031	\$ 15,810	\$ 10,235	4.53
2011A Mercado Refunding Certificates of Participation	2011	2025	8,465	5,015	4.27
2013 A/B Refunding Certificates of Participation	2013	2027	64,780	59,575	3.09
2014 A/B Refunding Certificates of Participation	2015	2031	84,525	68,685	3.04
2017 Refunding Certificates of Participation	2018	2027	44,815	44,815	1.87
University of Arizona:					
Fixed Student Union	1999	2020	21,607	266	5.13
Biomedical Research Collaborative Bldg. Project	2006	2031	18,240	12,115	4.30 - 5.00
Refund COPs 2003A	2012	2022	10,190	4,915	2.78 - 3.42
Refund COPs 2002B	2012	2023	20,600	12,310	4.00 - 5.00
Refund COPs 2003B & 2004A	2012	2031	124,940	108,255	3.00 - 5.00
Refund COPs 2005A-2005D, 2005F-2005I, 2006A-2006C, & 2006E	2015	2025	89,470	62,580	5.00
Refund COPs 2006C, 2006D, & 2007A	2015	2025	13,810	12,260	1.62 - 3.09
Refund COPs 2007B	2018	2022	27,135	21,795	5.00
Refund COPs 2007D	2018	2031	32,430	30,265	5.00
Northern Arizona University:					
2013 Refunding Certificates of Participation	2013	2031	36,005	34,570	4.78
2015 Refunding Certificates of Participation	2015	2031	18,825	14,980	4.92
Total Business-type Activities			<u>\$ 631,647</u>	<u>\$ 502,636</u>	

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Principal and interest debt service requirements on COPs outstanding at June 30, 2018 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
2019	\$ 192,130	\$ 71,381	\$ 263,511	\$ 50,805	\$ 21,051	\$ 71,856
2020	194,570	63,602	258,172	52,971	18,997	71,968
2021	136,975	56,111	193,086	49,760	16,665	66,425
2022	144,080	49,088	193,168	50,140	14,391	64,531
2023	150,850	42,384	193,234	41,515	12,173	53,688
2024-2028	606,165	122,647	728,812	165,925	36,287	202,212
2029-2031	161,225	8,183	169,408	91,520	6,241	97,761
Total	\$ 1,585,995	\$ 413,396	\$ 1,999,391	\$ 502,636	\$ 125,805	\$ 628,441

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, 2018 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2019	\$ 26,904	\$ 11,316
2020	25,067	11,278
2021	20,441	11,287
2022	19,350	11,183
2023	17,816	10,833
2024-2028	55,926	53,364
2029-2033	45,954	47,625
2034-2038	4,039	16,062
2039-2043	—	1,370
2044-2072	—	4,154
Total minimum lease payments	215,497	178,472
Less: amount representing interest	(25,916)	(47,338)
Present Value of Net Minimum Lease Payments	\$ 189,581	\$ 131,134

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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	186,479
Equipment	117,456	2,470
	<u>338,514</u>	<u>197,190</u>
Less: accumulated depreciation	(101,869)	(57,895)
Carrying Value	<u>\$ 236,645</u>	<u>\$ 139,295</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 2018, the State paid for compensated absences as follows: 77.99% from the General Fund, 16.28% from other funds, and 5.73% from other major funds.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

F. CHANGES IN LONG-TERM OBLIGATIONS

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

	Balance July 1, 2017, as restated	Increases	Decreases	Balance June 30, 2018	Due Within One Year	Due Thereafter
Governmental Activities:						
Long-term Debt:						
Revenue bonds	\$ 2,640,330	\$ —	\$ (268,565)	\$ 2,371,765	\$ 234,145	\$ 2,137,620
Grant anticipation notes	129,475	62,595	(14,650)	177,420	16,000	161,420
Certificates of participation	1,804,395	31,570	(249,970)	1,585,995	192,130	1,393,865
Capital leases	215,084	13,397	(38,900)	189,581	22,307	167,274
Notes payable	22,179	—	(22,179)	—	—	—
Premiums and discounts on debt	516,456	12,839	(75,582)	453,713	46,172	407,541
Total Long-term Debt	<u>5,327,919</u>	<u>120,401</u>	<u>(669,846)</u>	<u>4,778,474</u>	<u>510,754</u>	<u>4,267,720</u>
Other Long-term Liabilities:						
Compensated absences	302,151	227,740	(196,134)	333,757	175,620	158,137
Pollution remediation obligations	6,523	14,099	—	20,622	3,357	17,265
Accrued relocation costs	31,863	29,783	(31,863)	29,783	—	29,783
Total Other Long-term Liabilities	<u>340,537</u>	<u>271,622</u>	<u>(227,997)</u>	<u>384,162</u>	<u>178,977</u>	<u>205,185</u>
Total Long-term Obligations	<u>\$ 5,668,456</u>	<u>\$ 392,023</u>	<u>\$ (897,843)</u>	<u>\$ 5,162,636</u>	<u>\$ 689,731</u>	<u>\$ 4,472,905</u>
Business-type Activities:						
Long-term Debt:						
Revenue bonds	\$ 3,010,525	\$ 334,965	\$ (236,245)	\$ 3,109,245	\$ 173,615	\$ 2,935,630
Certificates of participation	557,506	104,380	(159,250)	502,636	50,805	451,831
Capital leases	134,399	3,318	(6,583)	131,134	6,242	124,892
Installment purchase contracts	1,460	—	(691)	769	707	62
Premiums and discounts on debt	325,412	56,929	(39,694)	342,647	27,452	315,195
Total Long-term Debt	<u>4,029,302</u>	<u>499,592</u>	<u>(442,463)</u>	<u>4,086,431</u>	<u>258,821</u>	<u>3,827,610</u>
Other Long-term Liabilities:						
Compensated absences	101,789	112,750	(103,890)	110,649	18,122	92,527
U of A capital commitments	18,924	6,100	(5,450)	19,574	4,950	14,624
Total Other Long-term Liabilities	<u>120,713</u>	<u>118,850</u>	<u>(109,340)</u>	<u>130,223</u>	<u>23,072</u>	<u>107,151</u>
Total Long-term Obligations	<u>\$ 4,150,015</u>	<u>\$ 618,442</u>	<u>\$ (551,803)</u>	<u>\$ 4,216,654</u>	<u>\$ 281,893</u>	<u>\$ 3,934,761</u>

The above long-term obligations relating to governmental activities include internal service funds. Amounts for compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position because \$164.411 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.

For beginning balance restatement detail, see Note 8. B.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 7. INTERFUND TRANSACTIONS

INTERFUND BALANCES AND TRANSFERS

Interfund Receivables/Payables

Interfund balances as of June 30, 2018 were as follows (expressed in thousands):

Due From	Due To					
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Internal Service Funds	Total Due To
General Fund	\$ —	\$ —	\$ 229	\$ 69,869	\$ 4,388	\$ 74,486
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	5,405	—	—	7,996	—	13,401
Land Endowments Fund	—	—	—	6,312	—	6,312
Non-Major Governmental Funds	9,579	—	—	180	166	9,925
Non-Major Enterprise Funds	16,999	—	—	4,509	—	21,508
Internal Service Funds	63	712	—	—	—	775
Total Due From	\$ 32,046	\$ 712	\$ 229	\$ 88,866	\$ 4,554	\$ 126,407

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, 2018 were as follows (expressed in thousands):

Transferred From	Transferred To					
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-Major Governmental Funds	Universities Fund	Internal Service Funds	Total Transfers Out
General Fund	\$ —	\$ 26,933	\$ 256,933	\$ 694,908	\$ 102	\$ 978,876
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	—	—	252,974	—	—	252,974
Land Endowments Fund	27	—	25,288	—	—	25,315
Non-Major Governmental Funds	111,309	640	6,526	—	—	118,475
Non-Major Enterprise Funds	96,246	—	68,170	39,610	—	204,026
Internal Service Funds	12,679	—	906	—	—	13,585
Total Transfers In	\$ 220,261	\$ 27,573	\$ 610,797	\$ 734,518	\$ 102	\$ 1,593,251

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 8. ACCOUNTING CHANGES

A. FUND FINANCIAL STATEMENTS

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

	Governmental Funds		Proprietary Funds	
	General Fund	Universities	Non-Major Enterprise Funds	Internal Service Funds
Fund Balances/Net Position, as previously reported	\$ 34,392	\$ 2,755,234	\$ 880,113	\$ (363,983)
Prior period adjustment				
Implementation of GASB 75:				
Net OPEB liability (measurement date as of June 30, 2016)	—	(351,211)	(8,037)	(8,584)
Deferred outflows - contributions made during fiscal year 2017	—	16,481	374	446
Correction of error	(55,849)	—	(113,056)	—
Change in reporting entity	—	—	(3,748)	—
Fund Balances/Net Position, as restated	\$ (21,457)	\$ 2,420,504	\$ 755,646	\$ (372,121)

B. GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities
Net Position, as previously reported	\$ 22,665,748	\$ 3,694,813
Prior period adjustment		
Implementation of GASB 75:		
Net OPEB liability (measurement date as of June 30, 2016)	(532,305)	(359,248)
Deferred outflows - contributions made during fiscal year 2017	25,498	16,855
Correction of error	(55,849)	(113,056)
Change in reporting entity	—	(3,748)
Net Position, as restated	\$ 22,103,092	\$ 3,235,616

Prior period adjustment and Change in Reporting Entity

Beginning net position has been restated for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*.

The General Fund beginning fund balance was restated by \$55.8 million due to an overstatement of intergovernmental revenue in the prior fiscal year.

The Insurance Department Guaranty Funds beginning net position was restated by \$113.1 million due to an unrecorded insurance loss that occurred in the prior fiscal year.

The AIB, previously reported as a non-major enterprise fund, was privatized as of July 1, 2017. The AIB no longer meets the GASB requirement for inclusion in the State's financial reporting entity resulting in a \$3.7 million restatement to beginning net position (included in the restatement was \$1.1 million in capital assets).

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

NOTE 9. GOVERNMENTAL FUND BALANCES

Detail of the fund balance categories and classifications shown in the aggregate on the governmental funds balance sheet for the year ended June 30, 2018 were as follows (expressed in thousands):

	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Land Endowments Fund	Non-Major Governmental Funds	Total
Fund Balances:					
Nonspendable:					
Inventory	\$ 11,632	\$ 53	\$ —	\$ —	\$ 11,685
Permanent fund principal	—	—	5,849,376	—	5,849,376
Restricted for:					
General government	—	—	—	35,118	35,118
Health and welfare	—	—	—	58,784	58,784
Inspection and regulation	—	—	—	2,385	2,385
Education	—	—	—	444,525	444,525
Natural resources	—	—	—	9,571	9,571
Debt service	—	—	—	64,722	64,722
Capital projects	—	842,739	—	24,414	867,153
School facilities improvements	44,401	—	—	—	44,401
Committed to:					
General government	—	—	—	154,589	154,589
Health and welfare	14,675	—	—	257,728	272,403
Inspection and regulation	715	—	—	148,925	149,640
Education	22,036	—	—	—	22,036
Protection and safety	—	—	—	84,146	84,146
Transportation	—	328,764	—	—	328,764
Natural resources	25,116	—	—	86,292	111,408
School facilities improvements	50,662	—	—	—	50,662
Unassigned:	—	—	(14,491)	—	(14,491)
Total Fund Balances	<u>\$ 169,237</u>	<u>\$ 1,171,556</u>	<u>\$ 5,834,885</u>	<u>\$ 1,371,199</u>	<u>\$ 8,546,877</u>

NOTE 10. DEFICIT NET POSITION

The Risk Management Fund (RMF), an internal service fund, reported a deficit net position of \$373.6 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 \$159.2 million deficit net position is primarily due to the above funding mechanism.

The Telecommunication Fund, an internal service fund, reported a deficit of \$46 thousand as a result of recognition of net pension and OPEB liabilities.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 11. JOINT VENTURES

A. LARGE BINOCULAR TELESCOPE CORPORATION

The U of A is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the U of A and the 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, Istituto Nazionale di Astrofisica, 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, 2018, the U of A has made total cash contributions of \$18.3 million and contributions of services and materials of \$3.5 million, which is recorded as equity interest in joint venture on the Statement of Net Position. The U of A's financial interest represents 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 and depreciation of the property and equipment commenced. The U of A recorded its proportionate share of the use of the viewing/observation rights, \$1.5 million in calendar year 2018, as a reduction in its equity interest. At June 30, 2018, the equity interest totaled \$11.5 million. According to the most recent audited financial statements of the LBT for the year ended December 31, 2017, assets, liabilities, revenues, and expenses totaled \$121.0 million, \$2.9 million, \$14.5 million, and \$18.5 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 twelve 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 agreements outlining capital commitments to the GMTO between June 2016 and June 2022. Capital commitments in the amount of \$19.6 million related to the GMT as of June 30, 2018 are reported in Note 6.F.

The U of A has contributed a total of \$46.5 million to the GMTO as of June 30, 2018. 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, 2018, the U of A has received contractual payments related to the project from the GMTO and related partners totaling \$70.3 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 12. COMMITMENTS, CONTINGENCIES, AND COMPLIANCE

A. INSURANCE LOSSES

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

The 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-

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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 since 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 years 2016, 2017, or 2018.

AMI Risk Consultants, Inc. was retained to evaluate the medical and compensation related liabilities of the Special Fund as of June 30, 2018. The total estimated loss reserve of \$255.9 million decreased by 3.0%, or \$8.0 million, from the prior year estimated loss reserve of \$263.9 million. There were no major shifts in any of the 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 .43% 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 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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

(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, 2017 and June 30, 2018 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2017	\$ 440,580	\$ 74,501	\$ (73,464)	\$ 441,617
2018	441,617	52,105	(67,781)	425,941
Industrial Commission Special Fund:				
2017	231,622	44,434	(12,163)	263,893
2018	263,893	4,630	(12,585)	255,938
Insurance Department Guaranty Funds:				
2017	148,918	13,176	(13,236)	148,858
2018	148,858	117,628	(26,470)	240,016

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 \$161.8 million at June 30, 2018.

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 \$1.5 billion (net of refunds issued) has been collected since the inception of the fund. The State is also holding securities valued at \$29.3 million and mutual funds valued at \$19.3 million. In accordance with A.R.S. § 44-313 and A.R.S. § 44-314, for fiscal year 2018, \$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, \$81.3 million was deposited in the General Fund, and \$868 thousand was deposited in other funds as required by State statute. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The GASB requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

also reported as a reduction of revenue. At June 30, 2018, \$641.1 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 \$2.1 billion at June 30, 2018, as presented in the following table (expressed in thousands):

	<u>Remaining Commitments</u>
Local government assistance	\$ 148,731
State highways	
Construction	1,158,337
Design	189,266
Right of way	207,412
Utilities	42,811
Planning and research	59,597
Other	330,606
Total	<u>\$ 2,136,760</u>

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 \$55.1 million at June 30, 2018. Approximately \$52.3 million of the total aggregate future payments at June 30, 2018 relate to annuities purchased from five separate insurance companies, of which approximately \$21.3 million relates to a single insurance company.

NOTE 13. TOBACCO SETTLEMENT

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

The State recorded tobacco settlement revenue of \$101.8 million in the fund statements and the government-wide statements in fiscal year 2018. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a volume adjustment, which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable and there is no obligation for the tobacco companies to make settlement payments until cigarettes are shipped, the State did not record a receivable for the future payments related to cigarette sales after June 30, 2018.

NOTE 14. SUBSEQUENT EVENTS

In August 2018, the Arizona Department of Transportation issued \$262.0 million in Transportation Excise Tax Revenue Bonds, Series 2018 (Series 2018 Bonds), with interest rates ranging from 2.00% to 5.00% and maturity dates ranging from 2019 to 2025. Net proceeds totaled \$290.0 million, after receipt of original issue premium of \$28.5 million and payment of \$517 thousand of issuance cost and underwriter's discount. Proceeds from the Series 2018 Bonds are intended to be used to pay the cost of design, right-of-way purchase, or construction of certain freeways and other routes within Maricopa County, Arizona. The Series 2018 Bonds are not subject to redemption prior to their respective maturity dates.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

In December 2018, the State entered into a forward delivery contract for \$246.4 million in Lottery Revenue Refunding Bonds, Series 2019 (Series 2019 Bonds) that will be issued in October 2019 to: (1) refund, in advance of maturity, Lottery Revenue Bonds, Series 2010A and (2) pay costs of issuance. The Series 2019 Bonds will include serial bonds with interest rates of 5.00% and maturity dates ranging from 2020 to 2029. The Series 2019 Bonds will not be subject to optional redemption prior to maturity.

In January 2019, the State entered into a forward delivery contract for \$425.0 million in Refunding Certificates of Participation, Series 2019A (Series 2019A Certificates) that will be issued in July 2019 to: (1) refund, in advance of maturity, Certificates of Participation, Series 2010A and (2) pay costs of issuance. The Series 2019A Certificates will include serial certificates with interest rates of 5.00% and maturity dates ranging from 2019 to 2029. The Series 2019A Certificates will be subject to extraordinary redemption prior to their stated maturity dates pursuant to the debt documents.

NOTE 15. 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.
- *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 \$358.3 million managed by the Foundations. These funds are primarily held in pooled endowment funds managed for the Universities under service contracts with the Foundations and invested in the Foundations' endowment pools.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

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. From time to time, the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level required to be held in perpetuity. For these funds, the change in value is shown as unrestricted net investment return and is reported in unrestricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets.

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.

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

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

activities envisioned by the donor at the time of the gift. The U of A Foundation expects its endowment funds to provide an annual average rate of return of 8.0% with a standard deviation of 14.6% 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, 2018 (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Guaranteed investment contracts	\$ 15,981	\$ —	\$ —	\$ —	\$ 15,981
Money market mutual funds	8,988	8,988	—	—	—
U.S. agency securities	46,867	—	46,867	—	—
U.S. Treasury securities	23,222	12,925	102	1,448	8,747
Total	\$ 95,058	\$ 21,913	\$ 46,969	\$ 1,448	\$ 24,728

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

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, 2018 (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>Unrated</u>
Guaranteed investment contracts	\$ 15,981	\$ —	\$ 15,981
Money market mutual funds	8,988	—	8,988
U.S. agency securities	46,867	46,867	—
Total	<u>\$ 71,836</u>	<u>\$ 46,867</u>	<u>\$ 24,969</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, 2018, investments in any one issuer, that were more than 5% of the AFA's WIFA's total investments are in U.S. Bank (fair value of \$46.9 million, or 13.9%).

f. Fair Value Measurement

The AFA's WIFA's investments at June 30, 2018, 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, 2018</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. agency securities	\$ 46,867	\$ —	\$ 46,867	\$ —
U.S. Treasury securities	23,222	—	23,222	—
Total	<u>\$ 70,089</u>	<u>\$ —</u>	<u>\$ 70,089</u>	<u>\$ —</u>

Investments categorized as Level 2 are valued using significant other observable inputs. In addition, the AFA's WIFA had \$9.0 million invested in money market funds as well as \$16.0 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, 2018, were as follows (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>
Money market funds and cash equivalents	\$ 15,731
Domestic/international equity securities and mutual funds	629,822
Domestic/international fixed income obligations and mutual funds	306,927
Absolute return limited partnerships and funds	429,661
Real assets	103,134
Private capital	65,130
Other	351,748
Total Investments	<u>\$ 1,902,153</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

b. Investments Classified in Fair Value Hierarchy

The investments held by the ASUEP and the U of A Foundation at June 30, 2018, categorized within the fair value hierarchy, were as follows (expressed in thousands):

	June 30, 2018	Fair Value Measurement Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Money market funds and cash equivalents	\$ 15,731	\$ 15,685	\$ —	\$ 46
Domestic/international equity securities and mutual funds	503,744	404,669	—	99,075
Domestic/international fixed income obligations and mutual funds	281,792	261,200	11,203	9,389
Absolute return limited partnerships and funds	64,909	61,127	—	3,782
Real assets	102,699	25,505	—	77,194
Private capital	58,710	3,931	—	54,779
Charitable trust receivable	1,723	—	—	1,723
Assets with limited use	8,204	8,204	—	—
Assets held under split-interest agreements	7,468	7,468	—	—
Other	139,023	42,085	19,378	77,560
Total investments by fair value level	<u>1,184,003</u>	<u>\$ 829,874</u>	<u>\$ 30,581</u>	<u>\$ 323,548</u>
Investments Measured at the NAV				
ASUEP - Domestic/international equity securities and mutual funds	26,023			
ASUEP - Domestic/international fixed income obligations and mutual funds	25,135			
ASUEP - Absolute return limited partnerships and funds	87,994			
ASUEP - Real assets	435			
ASUEP - Private capital	6,420			
U of A Foundation - Multi-strategy hedge funds	120,937			
U of A Foundation - Equity long-only hedge funds	100,055			
U of A Foundation - Equity long/short hedge funds	74,566			
U of A Foundation - Fixed income hedge funds	60,822			
U of A Foundation - Natural resources limited partnerships	81,447			
U of A Foundation - Private equity limited partnerships	96,704			
U of A Foundation - Private real estate limited partnerships	34,574			
U of A Foundation - Private credit limited partnerships	20,433			
Total investments measured at the NAV	<u>735,545</u>			
Total investments measured at fair value	<u>\$ 1,919,548</u>			

Investments categorized as Level 1 of the fair value hierarchy are valued using quoted prices in active markets for identical assets or liabilities which provides the most reliable fair value measurement because it is directly observable to the market. Investments categorized as Level 2 of the fair value hierarchy are valued using other significant observable inputs such as quoted prices for similar securities, interest rates, or credit risk, which are either directly or indirectly observable as of the report date. 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 \$160,578, including \$5,702 in unrealized swap liability valued using level 2 valuation techniques, and \$154,876 in assets held for others valued using level 3 valuation techniques.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

c. Investments Measured at the NAV

The investments held by the ASUEP and the U of A Foundation at June 30, 2018, valued using the NAV per share, were as follows (expressed in thousands):

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
ASUEP - Domestic/international equity securities and mutual funds	\$ 26,023	\$ —	N/A	N/A
ASUEP - Domestic/international fixed income obligations and mutual funds	25,135	—	N/A	N/A
ASUEP - Absolute return limited partnerships and funds	87,994	—	N/A	N/A
ASUEP - Real assets	435	—	N/A	N/A
ASUEP - Private capital	6,420	—	N/A	N/A
U of A Foundation - Multi-strategy hedge funds	120,937	13,500	Monthly, quarterly, annually	14-90 days
U of A Foundation - Equity long-only hedge funds	100,055	—	Monthly, quarterly, semi-annually, triennially	30-90 days
U of A Foundation - Equity long/short hedge funds	74,566	—	Annually, triennially, quinquennially	60-120 days
U of A Foundation - Fixed income hedge funds	60,822	—	Quarterly	45-90 days
U of A Foundation - Natural resources limited partnerships	81,447	29,943	N/A	N/A
U of A Foundation - Private equity limited partnerships	96,704	81,162	N/A	N/A
U of A Foundation - Private real estate limited partnerships	34,574	41,043	N/A	N/A
U of A Foundation - Private credit limited partnerships	20,433	25,844	N/A	N/A
Total	<u>\$ 735,545</u>	<u>\$ 191,492</u>		

C. ENDOWMENTS

1. ASUEP

The following shows the changes in the ASUEP net assets for the fiscal year ending June 30, 2018 (expressed in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (7,013)	\$ 117,655	\$ 397,257	\$ 507,899
Investment return:				
Investment income		7,443	424	7,867
Net appreciation	988	30,778	1,027	32,793
Changes in assets due to other entities		(12,896)		(12,896)
Total investment return	988	25,325	1,451	27,764
Contributions/transfers		5,780	35,879	41,659
Appropriation for payout		(25,011)	(527)	(25,538)
Reclassification of donor intent		922	498	1,420
Endowment net assets, end of year	<u>\$ (6,025)</u>	<u>\$ 124,671</u>	<u>\$ 434,558</u>	<u>\$ 553,204</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

2. U of A Foundation

The following shows the changes in the U of A Foundation net assets for the fiscal year ending June 30, 2018 (expressed in thousands):

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 6,502	\$ 32,960	\$ 702,316	\$ 741,778
Investment return:				
Investment income			17,528	17,528
Less: endowment fee			(10,504)	(10,504)
Net appreciation	208	1,116	47,244	48,568
Total investment return	208	1,116	54,268	55,592
Contributions/transfers	(3,000)	2,000	93,254	92,254
Appropriation for payout			(23,786)	(23,786)
Endowment net assets, end of year	<u>\$ 3,710</u>	<u>\$ 36,076</u>	<u>\$ 826,052</u>	<u>\$ 865,838</u>

D. 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 2018 were as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Clean Water Fund	\$ 467,989	\$ 8,308	\$ (42,516)	\$ 433,781
Drinking Water Fund	342,417	21,571	(31,060)	332,928
Total	<u>\$ 810,406</u>	<u>\$ 29,879</u>	<u>\$ (73,576)</u>	<u>\$ 766,709</u>

Repayment of these loans will be made from pledged property taxes, net revenues from the systems, transaction privilege taxes, or from special assessments. Most loans have a .30% to 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, 2018, the debt service reserve was \$69 thousand and \$2.1 million for the Clean Water and Drinking Water funds, respectively, and no allowance for loan loss was recorded.

E. 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.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Pledges receivable, as of June 30, 2018, include the following (expressed in thousands):

	ASU Enterprise Partners
Gross pledges receivable	\$ 221,412
Present value discount	(15,936)
Allowance for uncollectible pledges	(49,139)
Net Pledges Receivable	<u>\$ 156,337</u>

F. 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, 2018 is \$21.0 million.

2. ACFFC

Pursuant to a Sublease Agreement, dated April 7, 2004 and amended on December 1, 2017 (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 2009B and 2017 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 2009B and 2017 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 \$28.0 million at June 30, 2018.

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 1, 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 \$10.3 million at June 30, 2018.

G. CAPITAL ASSETS

Capital assets for the ACFFC for the fiscal year ended June 30, 2018 include the following (expressed in thousands):

	ACFFC
Construction in progress	\$ 7,031
Buildings and improvements	174,117
Furniture, fixtures, and equipment	79,027
Total cost or donated value	260,175
Less: accumulated depreciation	(130,786)
Total Property and Equipment, Net	<u>\$ 129,389</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

H. 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.

In December 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 of the defeased bonds still outstanding, as of June 30, 2018, 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 all principal and interest in the defeased 2009A bonds 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 defeased. The interest paid on the defeasance is included in expenses in the accompanying financial statements. The amount of the defeased bonds still outstanding, as of June 30, 2018, was \$6.8 million.

In January 2018, AFA's WIFA defeased \$46.1 million of Water Quality Revenue Bonds, series 2010A, 2010R, 2012A, and 2014R using their own resources. Sufficient assets to pay all principal and interest in the defeased bonds 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 defeased. The interest paid on the defeasance is included in expenses in the accompanying financial statements. An in-substance defeasance of \$1.1 million is also included in expenses in the accompanying financial statements. The amount of the defeased bonds still outstanding, as of June 30, 2018, was \$46.1 million.

In May 2018, AFA's WIFA defeased \$81.6 million of Water Quality Revenue Bonds, series 2014R using their own resources. Sufficient assets to pay all principal and interest in the defeased bonds 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 defeased. The interest paid on the defeasance is included in the accompanying financial statements. An in-substance defeasance of \$2.3 million is also included in expenses in the accompanying financial statements. The amount of the defeased bonds still outstanding, as of June 30, 2018, was \$81.6 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, 2018 (expressed in thousands):

	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2018
Revenue Bonds Outstanding	2008-2015	2019-2028	0.20-5.00%	\$ 437,510

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Principal and interest debt service payments on AFA's WIFA revenue bonds outstanding at June 30, 2018 were as follows (expressed in thousands):

Fiscal Year	Annual Debt Service		
	Principal	Interest	Total
2019	\$ 40,760	\$ 20,216	\$ 60,976
2020	44,615	18,292	62,907
2021	43,900	16,157	60,057
2022	43,105	14,049	57,154
2023	44,250	12,240	56,490
2024-2028	220,880	26,835	247,715
Total	<u>\$ 437,510</u>	<u>\$ 107,789</u>	<u>\$ 545,299</u>

b. Changes in Long-Term Obligations

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

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year	Due Thereafter
Long-term Debt:						
Revenue bonds	\$ 606,270	\$ —	\$ (168,760)	\$ 437,510	\$ 40,760	\$ 396,750
Revenue bond premium	87,208	—	(23,927)	63,281	—	63,281
Total Long-term Debt	<u>693,478</u>	<u>—</u>	<u>(192,687)</u>	<u>500,791</u>	<u>40,760</u>	<u>460,031</u>
Other Long-term Liabilities:						
Compensated absences	95	61	(91)	65	65	—
Total Other Long-term Liabilities	<u>95</u>	<u>61</u>	<u>(91)</u>	<u>65</u>	<u>65</u>	<u>—</u>
Total Long-term Obligations	<u>\$ 693,573</u>	<u>\$ 61</u>	<u>\$ (192,778)</u>	<u>\$ 500,856</u>	<u>\$ 40,825</u>	<u>\$ 460,031</u>

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

2. Universities-Affiliated Component Units

A summary of bonds payable as of June 30, 2018 include the following (expressed in thousands):

	<u>Final Maturity</u>	<u>Amount</u>
ASU Enterprise Partners:		
Series 2014A Tax-Exempt Lease Revenue Bonds	2035	\$ 31,390
Series 2014B Taxable Lease Revenue Bonds	2019	2,295
Series 2014A Revenue Refunding Bonds	2034	37,090
Series 2004A Variable Rate Revenue Bonds	2034	22,420
Series 2004B Variable Rate Revenue Bonds	2022	4,345
Unamortized Bond Discount		(1,284)
ACFFC:		
Series 2018 Tax-Exempt Revenue Bonds	2038	23,550
Series 2017 Tax-Exempt Lease Revenue Refunding Bonds	2034	23,995
Series 2017 Tax-Exempt Lease Revenue Refunding Bonds	2028	11,315
Series 2016 Tax-Exempt Revenue Refunding Bonds	2039	118,050
Series 2011 Tax-Exempt Revenue Refunding Bonds	2018	2,990
Series 2009 Revenue Bonds	2024	23,965
Series 2009B Lease Revenue Refunding Bonds	2022	4,385
Series 2008 Revenue Bonds	2028	765
Series 2008 Revenue Refunding Bonds	2019	4,520
Series 2008 Variable Rate Demand Revenue Refunding Bonds	2030	30,740
Unamortized Loan Costs		(2,631)
Deferred Cost of Refunding		(16,195)
Unamortized Bond Premium		23,107

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

<u>Fiscal Year</u>	<u>ASU Enterprise Partners</u>	<u>ACFFC</u>
2019	\$ 3,845	\$ 12,110
2020	4,035	10,485
2021	4,215	10,710
2022	4,395	11,375
2023	4,600	12,035
Thereafter	75,166	191,841
Total	<u>\$ 96,256</u>	<u>\$ 248,556</u>

I. TAX ABATEMENTS

The Rio Nuevo receives tax increment financing from state sales tax revenue that can be used to enter into tax rebate agreements with local developers for the purpose of attracting or retaining businesses and new development within the Rio Nuevo District. These tax rebate agreements meet the GASB definition of tax abatements. Rebates reduce the Rio Nuevo recorded state sales tax revenue. As of June 30, 2018, the Rio Nuevo has approved the following tax abatement agreements over \$5.0 million.

In June 2017, the Rio Nuevo Board of Directors (Board) approved a restructuring of its agreement with the developers of the AC Marriott Hotel. The developer agreed to renovate and upgrade retail properties adjacent to the AC Marriott Hotel and relieved the Rio Nuevo of its obligation to purchase the parking garage component of the hotel project for \$4.3 million. In exchange, the Rio Nuevo agreed to

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

rebate 100% of the site specific incremental state sales taxes through July 1, 2025, and 50% thereafter, up to a rebate cap of \$7.8 million. State sales tax revenue of \$471 thousand was remitted to the developers relating to these agreements and \$504 thousand in rebates is owed as of June 30, 2018.

In May 2017, the Board also approved re-structuring the purchase/lease option with tax rebate incentives for the Arizona Hotel, the Chicago Store, 123 South Stone, and two additional properties: 98-112 E. Congress and 44 E. Broadway. The developer will receive 100% of the incremental gross state sales tax proceeds received by the Rio Nuevo on these properties through July 1, 2025, and 50% thereafter, until the maximum rebate cap is reached. The combined proposed cap on the rebates for these properties is \$17.3 million.

J. 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, 2018, the outstanding face value of all bonds of the AFA's AIDA was \$3.9 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, 2018, the total outstanding face value of all bonds issued by the AFA's GADA was \$66.8 million.

K. NONEXCHANGE FINANCIAL GUARANTEES

In accordance with the A.R.S. Title 15, Chapter 16, Article 11, the APSCE has guaranteed outstanding bond obligations of achievement district schools within the State in the amount of \$142.8 million at June 30, 2018. The program leverage ratio will not exceed a ratio of 3.5:1 as a result of the approval of the guaranteed financing being considered. The guarantees extend through the maturity dates of the bonds with the last maturity dates ranging from 2048 to 2052.

If the ASPCE makes a payment in connection with a guaranteed financing from the fund in the event that an achievement school district is unable to make a required debt service payment on a guaranteed bond, the school on whose behalf the payment was made shall repay the amount of the payment plus interest at a rate that is 100 basis points higher than the true interest rate on the guaranteed financing as determined by the ASPCE. Repayments shall be made to the ASPCE fund in equal monthly installments over a twelve-month period or another period as determined by the ASPCE. After the stated repayment period, any outstanding repayment balance shall become immediately due and payable. Any repayment amount owed to the ASPCE that is not otherwise paid remains a lawful obligation of the school and shall be paid from any other monies lawfully available to the school. This may include one or more of the following: (1) the right to all or a portion of the proceeds from the sale or lease of any property serving as collateral for a guaranteed financing, (2) the right to intercept any payments or monies otherwise payable to the school, and (3) the right to any insurance proceeds otherwise payable to the school. Additionally, on request of the ASPCE, the Attorney General shall take any actions necessary to enforce repayment of fund monies by a school.

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

L. ACCOUNTING CHANGES

Net Position has been restated for the Component Units as follows (expressed in thousands):

	<u>Component Units</u>
Net Position, as previously reported	\$ 776,816
Correction of error	14,034
Net Position, as restated	<u>\$ 790,850</u>

Correction of error

The AIDA's financial information was not made available in fiscal year 2017 when it became part of the State's reporting entity. The AIDA's financial information was recorded in fiscal year 2018 and this resulted in a \$14.0 million increase to beginning net position.

REQUIRED
SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMINISTRATION, ARIZONA DEPARTMENT OF			
1938 WORKS PROGRESS ADMINISTRATION REPAIR	\$ 120,000	\$ 120,000	\$ —
ADMIN ADJUSTMENT AFIS COLLECTIONS	—	20,493	20,493
ADMIN ADJUSTMENT AFIS REPLACEMENT ERP	—	439,611	439,611
ADMIN ADJUSTMENT AUTOMATION AND INFORMATION TECH PROJECTS	—	866,616	866,616
ADMIN ADJUSTMENT E LICENSING DEQ	—	600,000	600,000
ADMIN ADJUSTMENT GOVERNMENT TRANSFORMATION OFFICE	—	15,961	15,961
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	1,061,831	1,061,831
ADMIN ADJUSTMENT UTILITIES	—	646,482	646,482
ADULT INFORMATION MANAGEMENT SYSTEM	4,000,000	4,000,000	955,000
AFIS COLLECTIONS	9,406,300	9,457,500	9,401,350
AFIS REPLACEMENT ERP	—	283,534	103,425
AUTOMATION AND INFORMATION TECH PROJECTS	—	7,379,937	6,073,312
BUILDING RENEWAL	139,068	139,068	83,438
BUILDING RENEWAL COSF	12,963,501	12,963,501	11,805,506
BUILDING RENEWAL COST	47,342	47,342	43,817
BUILDING RENEWAL GF	12,332,094	12,332,094	9,896,031
CHILDRENS INFORMATION LIBRARY	—	5,581,600	5,581,600
CHILDRENS INFORMATION LIBRARY AND DATA SOURCE SYSTEM AT DCS	6,103,000	6,103,000	—
CHILDRENS INFORMATION LIBRARY DCS	11,100,000	11,100,000	—
CHILDRENS INFORMATION LIBRARY DCS 141B	5,000,000	5,000,000	4,818,600
COP DEBT SERVICE 2009 3RD SS CH 6 SEC 32	60,103,600	60,103,600	60,103,600
COP DEBT SERVICE 2009 6TH SS CH 4 SEC 2A	24,011,500	24,011,500	24,011,500
E LICENSING DEQ	—	1,401,945	1,401,945
EDUCATION LEARNING AND ACCOUNTABILITY SYSTEM	7,300,000	7,300,000	7,300,000
ENHANCING STATEWIDE DATA SECURITY	7,303,500	7,303,500	2,517,237
GOVERNMENT TRANSFORMATION OFFICE	2,000,000	2,010,800	1,607,227
HRIS FEASIBILITY STUDY	—	500,000	293,550
IMPLEMENT A STATEWIDE E-LICENSING SYSTEM	595,500	595,500	595,500
IMPLEMENT E-LICENSING PROJECTS AT DEQ	3,200,000	3,200,000	1,600,000
IMPLEMENT UPDATES TO THE CRIMINAL JUSTICE IT SYS DPS	2,343,000	2,343,000	2,343,000
IMPLEMENT UPDATES TO THE INFORMATION TECHNOLOGY SYS AT LOA	3,497,400	3,497,400	2,047,400
IMPLEMENT UPGRADES TO CLAIMS PROCESSING SYSTEM ICA	1,017,400	1,017,400	1,017,400
IMPROVE AND MAINTAIN NETWORK AND SECURITY INFRASTRUCTURE	3,405,100	3,405,100	3,123,677
INFORMATION TECHNOLOGY INFRASTRUCTURE AT DOR	11,000,000	11,000,000	11,000,000
MAINTENANCE OF ESSENTIAL COUNTY SERVICES	8,000,000	8,000,000	8,000,000
MAINTENANCE OF ESSENTIAL COUNTY SERVICES - 200K-900K	1,650,150	1,650,150	1,650,150
MAINTENANCE OF ESSENTIAL COUNTY SERVICES - 30K-40K	500,000	500,000	500,000
MAINTENANCE OF ESSENTIAL COUNTY SERVICES - LESS THAN 200K	5,500,500	5,500,500	5,500,500
MICROWAVE BACKBONE STATEWIDE COM SYSTEM DPS	—	2,500,000	625,000
OFFICE OF GRANTS AND FEDERAL RESOURCES	375,900	375,900	305,097
OPERATING LUMP SUM APPROPRIATION	23,575,900	23,765,400	21,941,165
PROJECT MANAGEMENT OF STATEWIDE AUTOMATION AND IT PROJECTS	—	1,500,000	681,850
PROJECTS RELATED TO E-GOVERNMENT	500,000	500,000	173,572
RELIEF	—	4,499	4,499
RELOCATION	17,954	17,954	17,954
REPLACE CHILDRENS INFO LIBRARY AND DATA SOURCE SYSTEM AT DCS	—	3,103,000	—
REPLACE E-PROCUREMENT SYSTEM	8,795,160	8,795,160	5,098,889
SOUTHWEST DEFENSE CONTRACTS	25,000	25,000	25,000

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

(Continued)

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
STATE FED SECURITY IT STANDARDS DES	—	1,743,322	—
SWEEPS	9,065,600	9,065,600	9,065,600
THIRD PARTY IT CONSOLIDATION ASSESSMENT	—	50,000	—
UPGRADE CHILDRENS INFO LIBRARY AND DATA SOURCE SYSTEM AT DCS	—	3,000,000	—
UTILITIES	8,275,600	8,275,600	6,232,076
WHITE MOUNTAIN APACHE TRIBES WATER RIGHT	2,000,000	2,000,000	—
ADMINISTRATIVE HEARINGS, OFFICE OF			
AGENCY RELOCATION COSTS	—	26,900	26,900
OPERATING LUMP SUM APPROPRIATION	860,500	870,900	870,900
AGRICULTURE, ARIZONA DEPARTMENT OF			
ADMIN ADJUSTMENT AG CONSULTING AND TRAINING PARI-MUTUEL	—	9	9
ADMIN ADJUSTMENT ANIMAL DAMAGE CONTROL	—	14,647	14,647
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	92,232	92,232
AG CONSULTING AND TRAINING PARI-MUTUEL	128,500	128,500	124,715
AGRICULTURAL EMPLOYMENT RELATIONS BOARD	23,300	23,300	23,300
ANIMAL DAMAGE CONTROL	65,000	65,000	48,379
MANAGEMENT OF THE SALT RIVER HORSES	—	40,300	25,239
OFFSITE NUCLEAR EMERGENCY RESPONSE PLANS	—	275,012	209,191
OPERATING LUMP SUM APPROPRIATION	8,809,300	8,955,700	8,696,438
PLANT SERVICES DIVISION	—	150,000	150,000
RED IMPORTED FIRE ANT	23,200	23,200	17,400
STATE VETERINARIAN'S OFFICE	—	217,976	117,815
AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM			
ACA ADULT EXPANSION	458,541,200	450,284,200	415,813,303
ADMIN ADJUSTMENT ACA ADULT EXPANSION	—	4,351,777	4,351,777
ADMIN ADJUSTMENT ALTCS SERVICES	—	15,034,765	15,034,765
ADMIN ADJUSTMENT CHILDRENS REHABILITATIVE SERVICES	—	15,726,752	15,726,752
ADMIN ADJUSTMENT CHIP - SERVICES	—	1,193,569	1,193,569
ADMIN ADJUSTMENT CRISIS SERVICES	—	58,671	58,671
ADMIN ADJUSTMENT DES ELIGIBILITY	—	14,331,606	14,331,606
ADMIN ADJUSTMENT DISPROPORTIONATE SHARE PAYMENTS	—	848,800	848,800
ADMIN ADJUSTMENT MEDICAID BEHAVIORAL HEALTH PROPOSITION 204 SERVICES	—	2,655	2,655
ADMIN ADJUSTMENT MEDICAID BEHAVIORAL HEALTH TRADITIONAL SERVICES	—	1,164,123	1,164,123
ADMIN ADJUSTMENT NON MEDICAID SERIOUSLY MENTALLY ILL SERVICES	—	166,035	166,035
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	6,009,299	6,009,299
ADMIN ADJUSTMENT PROP 204 AHCCCS ADMINISTRATION	—	1,216,404	1,216,404
ADMIN ADJUSTMENT PROP 204 DES ELIGIBILITY	—	5,119,728	5,119,728
ADMIN ADJUSTMENT PROPOSITION 204 SERVICES	—	25,850,710	25,850,710
ADMIN ADJUSTMENT SUPPORTED HOUSING	—	86,956	86,956
ADMIN ADJUSTMENT TRADITIONAL MEDICAID SERVICES	—	154,834,132	154,834,132
ALTCS SERVICES	1,435,108,000	1,435,108,000	1,416,215,776
CHILDRENS REHABILITATIVE SERVICES	270,673,900	290,646,300	281,383,381
CHIP - SERVICES	111,961,100	111,961,100	56,565,708
CRISIS SERVICES	14,141,100	14,141,100	14,098,360
DES ELIGIBILITY	88,874,500	91,874,500	78,557,891
DISPROPORTIONATE SHARE PAYMENTS	5,087,100	5,087,100	4,202,300
DSH - VOLUNTARY	—	15,549,500	15,493,587
GRADUATE MEDICAL EDUCATION	265,729,800	303,102,300	272,269,476

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, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
MEDICAID BEHAVIORAL HEALTH ADULT EXPANSION SERVICES	77,403,100	92,160,100	91,467,763
MEDICAID BEHAVIORAL HEALTH CMDP	217,719,100	141,719,100	134,805,448
MEDICAID BEHAVIORAL HEALTH PROPOSITION 204 SERVICES	649,608,300	849,762,700	844,913,668
MEDICAID BEHAVIORAL HEALTH TRADITIONAL SERVICES	980,025,500	1,162,626,700	1,160,333,949
NON MEDICAID SERIOUSLY MENTALLY ILL SERVICES	78,846,900	78,846,900	78,014,024
OPERATING LUMP SUM APPROPRIATION	95,720,900	110,586,400	98,944,399
PROP 204 AHCCCS ADMINISTRATION	12,760,600	18,836,000	16,572,609
PROP 204 DES ELIGIBILITY	44,358,700	44,358,700	38,836,011
PROP 206 PROVIDER NETWORK ANALYSIS	200,000	200,000	61,711
PROPOSITION 204 SERVICES	2,632,018,000	2,516,124,700	2,464,841,426
RURAL HOSPITAL REIMBURSEMENT	22,650,000	22,650,000	22,649,984
SAFETY NET CARE POOL	75,000,000	75,000,000	54,663,278
SUPPORTED HOUSING	5,324,800	5,324,800	5,243,278
TRADITIONAL MEDICAID SERVICES	3,999,896,800	3,796,881,600	3,519,127,390
ARIZONA STATE UNIVERSITY			
ARIZONA FINANCIAL AID TRUST	5,985,800	5,985,800	5,985,800
BIOMEDICAL INFORMATICS	3,509,900	3,532,600	3,532,600
DOWNTOWN PHOENIX CAMPUS	14,337,000	13,746,400	13,746,400
ONE TIME FUNDING	—	6,639,500	6,639,500
OPERATING LUMP SUM APPROPRIATION - MAIN	217,880,500	221,488,500	221,488,500
OPERATING LUMP SUM APPROPRIATION - EAST	21,771,400	21,840,200	21,840,200
OPERATING LUMP SUM APPROPRIATION - WEST	29,413,500	29,514,200	29,514,200
RESEARCH INFRASTRUCTURE LEASE PURCHASE PAYMENT	15	12,564,015	12,561,557
RESEARCH INFRASTRUCTURE LEASE PURCHASE PAYMENT - POLYTECHNIC	—	917,000	917,000
SCHOOL OF CIVIC AND ECONOMIC THOUGHT AND LEADERSHIP	3,000,000	4,030,800	4,030,800
ATTORNEY GENERAL - DEPARTMENT OF LAW			
ADMIN ADJUSTMENT CAPITAL POSTCONVICTION PROSECUTION	—	18,181	18,181
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	426,017	426,017
ADMIN ADJUSTMENT STATE GRAND JURY	—	6,141	6,141
CAPITAL POSTCONVICTION PROSECUTION	795,700	803,100	579,595
INTERNET CRIMES AGAINST CHILDREN ENFORCEMENT	3,571,298	3,571,298	879,342
MILITARY INSTALLATION-PLANNING	2,779	87,779	42,579
OPERATING LUMP SUM APPROPRIATION	39,785,100	40,134,000	38,432,174
SOUTHERN ARIZONA DRUG ENFORCEMENT	1,193,000	1,206,500	1,202,946
STATE GRAND JURY	180,100	181,100	176,025
TOBACCO ENFORCEMENT	84,400	85,300	79,909
AUDITOR GENERAL			
INDEPENDENT CONSULTANT - CHILD WELFARE	74,449	74,449	—
OPERATING LUMP SUM APPROPRIATION	23,930,993	24,180,793	19,518,886
CHARTER SCHOOLS, STATE BOARD FOR			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	7,696	7,696
OPERATING LUMP SUM APPROPRIATION	1,185,200	1,200,600	1,069,892
CHILD SAFETY, DEPARTMENT OF			
ADMIN ADJUSTMENT DCS ADOPTION SERVICES	—	18,110,394	18,110,394
ADMIN ADJUSTMENT DCS ATTORNEY GENERAL LEGAL SERVICES	—	90,315	90,315
ADMIN ADJUSTMENT DCS CASEWORKERS	—	1,616,482	1,616,482
ADMIN ADJUSTMENT DCS CHILD CARE SUBSIDY	—	4,256,573	4,256,573
ADMIN ADJUSTMENT DCS FOSTER CARE PLACEMENT	—	4,633,455	4,633,455
ADMIN ADJUSTMENT DCS GRANDPARENT STIPENDS	—	192,449	192,449

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, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT DCS INDEPENDENT LIVING MAINTENANCE	—	37,273	37,273
ADMIN ADJUSTMENT DCS IN-HOME MITIGATION	—	6,836,908	6,836,908
ADMIN ADJUSTMENT DCS INSPECTIONS BUREAU	—	82,102	82,102
ADMIN ADJUSTMENT DCS NEW CASE AIDES	—	2,083,318	2,083,318
ADMIN ADJUSTMENT DCS OFFICE OF CHILD WELFARE INVESTIGATIONS	—	43,495	43,495
ADMIN ADJUSTMENT DCS OPERATING LUMP SUM	—	2,243,145	2,243,145
ADMIN ADJUSTMENT DCS OUT-OF-HOME SUPPORT SERVICES	—	15,734,654	15,734,654
ADMIN ADJUSTMENT DCS OVERTIME	—	231,142	231,142
ADMIN ADJUSTMENT DCS PERMANENT GUARDIAN SUBSIDY	—	964,207	964,207
ADMIN ADJUSTMENT DCS PREVENTIVE SERVICES	—	1,283,744	1,283,744
ADMIN ADJUSTMENT DCS RECORDS RETENTION STAFF	—	34,190	34,190
ADMIN ADJUSTMENT DCS RETENTION PAY	—	811,724	811,724
ADMIN ADJUSTMENT DCS TRAINING RESOURCES	—	3,129,254	3,129,254
ADMIN ADJUSTMENT EMERGENCY AND RESIDENTIAL PLACEMENT	—	10,665,814	10,665,814
BACKLOG PRIVATIZATION	4,399,572	4,399,572	1,532,852
DCS ADOPTION SERVICES	245,498,100	253,178,100	226,603,732
DCS ATTORNEY GENERAL LEGAL SERVICES	25,416,800	25,548,300	25,075,131
DCS CASEWORKERS	99,410,600	99,638,300	90,717,378
DCS CHILD CARE SUBSIDY	48,159,400	48,159,400	40,389,178
DCS FOSTER CARE PLACEMENT	59,595,500	53,095,500	47,081,381
DCS FOSTER HOME RECRUITMENT, STUDY AND SUPERVISION	32,753,600	32,753,600	25,918,280
DCS GENERAL COUNSEL	155,500	156,200	132,800
DCS GRANDPARENT STIPENDS	2,000,000	2,000,000	1,821,204
DCS INDEPENDENT LIVING MAINTENANCE	4,660,000	3,980,000	3,773,304
DCS IN-HOME MITIGATION	27,528,800	29,028,800	17,771,790
DCS INSPECTIONS BUREAU	2,470,100	2,480,300	2,166,937
DCS NEW CASE AIDES	3,060,600	3,077,100	1,068,551
DCS OFFICE OF CHILD WELFARE INVESTIGATIONS	9,611,100	9,648,000	8,295,446
DCS OPERATING LUMP SUM	109,997,300	110,137,600	104,622,391
DCS OUT-OF-HOME SUPPORT SERVICES	154,518,900	153,018,900	95,065,088
DCS OVERTIME	8,370,000	8,387,300	4,991,259
DCS PERMANENT GUARDIAN SUBSIDY	12,516,900	12,016,900	10,934,489
DCS PREVENTIVE SERVICES	15,148,300	15,148,300	13,251,127
DCS RECORDS RETENTION STAFF	592,900	594,600	445,271
DCS RETENTION PAY	1,707,000	1,707,000	929,101
DCS TRAINING RESOURCES	9,150,000	9,150,000	3,856,135
EMERGENCY AND RESIDENTIAL PLACEMENT	98,900,100	98,900,100	82,979,341
COMMISSION OF AFRICAN-AMERICAN AFFAIRS			
ADMIN ADJUSTMENT OPERATING LUMP SUM	—	4,524	4,524
OPERATING LUMP SUM	125,000	125,800	123,684
CORPORATION COMMISSION			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	263	263
DIVISION DATABASE REPLACEMENT	1,750,000	1,750,000	966,287
OPERATING LUMP SUM APPROPRIATION	661,500	673,100	671,782
RAILROAD WARNING SYSTEMS	47,510	47,510	—
CORRECTIONS, STATE DEPARTMENT OF			
ADMIN ADJUSTMENT INMATE HEALTH CARE CONTRACTED SERVICES	—	2,195,753	2,195,753
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	8,553,742	8,553,742
ASPC YUMA CHEYENNE REPAIRS	55,332	55,332	—

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, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
BUILDING RENEWAL FUND EXPENDITURES	243,078	243,078	—
CAPITAL OUTLAY APPROPRIATION	10,039,553	10,039,553	7,806,946
INMATE HEALTH CARE CONTRACTED SERVICES	137,311,700	137,311,700	133,091,697
LOCKING SYSTEMS REPLACEMENT	1,450,000	1,450,000	776,214
OPERATING LUMP SUM APPROPRIATION	781,381,100	795,542,000	788,149,946
PRIVATE PRISON PER DIEM	139,846,200	137,846,200	137,802,309
RELIEF	—	16,575	16,029
COURT OF APPEALS DIVISION I			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION - DIVISION I	—	27,013	27,013
OPERATING LUMP SUM APPROPRIATION - DIVISION I	10,155,900	10,258,000	10,192,152
COURT OF APPEALS DIVISION II			
ADMIN ADJUSTMENT OPERATING LUM SUM - DIVISION II	—	251	251
OPERATING LUM SUM - DIVISION II	4,422,200	4,465,000	4,453,700
DEAF AND BLIND, ARIZONA SCHOOLS FOR THE			
ADMIN ADJUSTMENT ADMIN-STATEWIDE	—	20,605	20,605
ADMIN ADJUSTMENT PHOENIX DAY SCHOOL FOR THE DEAF	—	406,222	406,222
ADMIN ADJUSTMENT PRESCHOOL-OUTREACH PROGRAMS	—	31,846	31,846
ADMIN ADJUSTMENT SCHOOL BUS REPLACEMENT	—	217,854	217,854
ADMIN ADJUSTMENT TUCSON CAMPUS	—	224,471	224,471
ADMIN-STATEWIDE	4,010,600	5,142,186	5,142,074
PHOENIX DAY SCHOOL FOR THE DEAF	3,806,700	3,908,857	3,903,350
PRESCHOOL-OUTREACH PROGRAMS	2,168,900	2,227,105	2,225,334
REGIONAL COOPERATIVES	1,001,400	4,317	4,317
SCHOOL BUS REPLACEMENT	738,000	738,000	728,196
TUCSON CAMPUS	9,652,500	9,911,535	9,797,462
ECONOMIC OPPORTUNITY, OFFICE OF			
OPERATING LUMP SUM APPROPRIATION	500,977	500,977	458,593
ECONOMIC SECURITY, DEPARTMENT OF			
ACHIEVING A BETTER LIFE EXPERIENCE ACT PROGRAM	240,000	240,000	104,234
ADMIN ADJUSTMENT ADULT SERVICES	—	1,962,760	1,962,760
ADMIN ADJUSTMENT ATTORNEY GENERAL LEGAL SERVICES	—	542,283	542,283
ADMIN ADJUSTMENT AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	—	1,042,543	1,042,543
ADMIN ADJUSTMENT CASE MANAGEMENT-STATE ONLY	—	193,809	193,809
ADMIN ADJUSTMENT CASE MANAGEMENT-TITLE XIX	—	12,223,190	12,223,190
ADMIN ADJUSTMENT CHILD CARE SUBSIDY	—	9,342,387	9,342,387
ADMIN ADJUSTMENT COMMUNITY AND EMERGENCY SERVICES	—	558,086	558,086
ADMIN ADJUSTMENT COORDINATED HOMELESS PROGRAM	—	96,821	96,821
ADMIN ADJUSTMENT COORDINATED HUNGER	—	161,681	161,681
ADMIN ADJUSTMENT COUNTY PARTICIPATION	—	713,369	713,369
ADMIN ADJUSTMENT DDD OPERATING LUMP SUM	—	15,189,199	15,189,199
ADMIN ADJUSTMENT DES OPERATING LUMP SUM	—	19,469,219	19,469,219
ADMIN ADJUSTMENT DOMESTIC VIOLENCE PREVENTION	—	441,140	441,140
ADMIN ADJUSTMENT HOME AND COMMUNITY BASED SERVICES - STATE ONLY	—	1,692,534	1,692,534
ADMIN ADJUSTMENT HOME AND COMMUNITY BASED SERVICES - TITLE XIX	—	85,784,806	85,784,806
ADMIN ADJUSTMENT INDEPENDENT LIVING REHABILITATION SERVICES	—	82,284	82,284
ADMIN ADJUSTMENT INSTITUTIONAL SERVICES-TITLE XIX	—	3,087,087	3,087,087
ADMIN ADJUSTMENT JOBS	—	1,242,914	1,242,914
ADMIN ADJUSTMENT MEDICAL SERVICES-TITLE XIX	—	4,554,063	4,554,063
ADMIN ADJUSTMENT REHABILITATION SERVICES	—	1,605,951	1,605,951

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, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT STATE FUNDED LONG-TERM CARE SERVICES	—	1,259,496	1,259,496
ADMIN ADJUSTMENT SWEEPS	—	4,643,778	4,643,778
ADMIN ADJUSTMENT TANF CASH BENEFITS	—	809,501	809,501
ADMIN ADJUSTMENT TRIBAL PASS-THRU FUNDING	—	1,004,070	1,004,070
ADMIN ADJUSTMENT WORKFORCE INVESTMENT ACT SERVICES	—	10,104,685	10,104,685
ADULT SERVICES	8,731,900	8,731,900	7,398,391
ATTORNEY GENERAL LEGAL SERVICES	10,898,800	10,906,200	9,850,409
AZ TRAINING PROGRAM COOLIDGE-TITLE XIX	20,498,100	26,109,600	18,385,939
CASE MANAGEMENT-STATE ONLY	3,893,700	3,913,000	2,403,559
CASE MANAGEMENT-TITLE XIX	76,853,800	83,637,100	74,553,724
CHILD CARE SUBSIDY	98,396,600	98,396,600	81,696,139
COMMUNITY AND EMERGENCY SERVICES	3,724,000	3,724,000	2,984,424
COORDINATED HOMELESS PROGRAM	2,522,600	2,522,600	2,385,597
COORDINATED HUNGER	1,754,600	1,754,600	1,724,600
COUNTY PARTICIPATION	8,740,200	8,740,200	5,132,003
DDD OPERATING LUMP SUM	30,323,800	43,087,400	24,598,849
DDD PREMIUM TAX PAYMENT	35,992,000	38,992,000	35,192,195
DES OPERATING LUMP SUM	154,693,300	155,493,000	130,401,978
DOMESTIC VIOLENCE PREVENTION	9,903,700	9,903,700	8,559,249
HOME AND COMMUNITY BASED SERVICES - STATE ONLY	19,908,000	19,908,000	16,377,163
HOME AND COMMUNITY BASED SERVICES - TITLE XIX	1,473,190,200	1,426,470,500	1,293,352,309
INDEPENDENT LIVING REHABILITATION SERVICES	166,000	109,700	54,817
INSTITUTIONAL SERVICES - TITLE XIX	31,396,700	35,025,500	30,146,269
JOBS	9,894,700	9,894,700	8,658,413
MEDICAL CLAWBACK	4,043,000	4,043,000	4,043,000
MEDICAL SERVICES - TITLE XIX	229,827,400	245,567,600	225,100,826
ONETIME DDD PROVIDER PAYMENT PROP 206	43,036,000	43,036,000	33,036,000
REHABILITATION SERVICES	6,594,400	6,650,700	4,543,173
STATE FUNDED LONG-TERM CARE SERVICES	26,559,600	28,561,500	25,881,469
TANF CASH BENEFITS	27,736,400	27,736,400	22,629,618
TRIBAL PASS-THRU FUNDING	4,680,300	4,680,300	4,680,300
WORKFORCE INVESTMENT ACT SERVICES	53,654,600	65,654,600	47,789,633
EDUCATION, BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM	—	125,230	125,230
OPERATING LUMP SUM	1,142,800	1,153,600	953,443
EDUCATION, DEPARTMENT OF			
ACHIEVEMENT TESTING	9,420,800	9,423,700	9,423,700
ADDITIONAL FUNDING	—	50,000,000	50,000,000
ADDITIONAL STATE AID - 1 PERCENT CAP	24,330,500	24,330,500	24,330,500
ADDITIONAL STATE AID TO SCHOOLS	386,215,500	386,215,500	386,215,500
ADDITIONAL TEACHER SALARY INCREASE	34,000,000	34,000,000	32,250,345
ADMIN ADJUSTMENT OTHER STATE AID TO DISTRICTS	—	201,865	201,865
ADMIN ADJUSTMENT TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND	—	31,165	31,165
ADULT EDUCATION	4,498,200	4,504,200	4,504,200
ALTERNATIVE TEACHER DEVELOPMENT PROGRAM	500,000	500,000	500,000
ARIZONA STRUCTURED ENGLISH IMMERSION	4,960,400	4,960,400	4,960,400
BASIC STATE AID DEFERRED PAYMENT	—	930,727,700	930,727,700
BASIC STATE AID ENTITLEMENT	2,664,770,700	2,663,564,153	2,642,916,393
COLLEGE CREDIT BY EXAMINATION INCENTIVE PROGRAM	5,000,000	5,000,000	3,822,150

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, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
EARLY LITERACY	8,000,000	8,000,000	8,000,000
ENGLISH LEARNER ADMINISTRATION	6,495,000	6,519,000	6,519,000
GEOGRAPHIC LITERACY	100,000	100,000	100,000
HIGH QUALITY TEACHER PROFESSIONAL DEVELOPMENT PILOT PROGRAM	—	300,000	66,728
JOBS FOR ARIZONA GRADUATES PROGRAM	100,000	100,000	100,000
JTED COMPLETION GRANTS	1,000,000	1,000,000	—
JTED SOFT CAPITAL AND EQUIPMENT	1,000,000	1,000,000	1,000,000
OPERATING LUMP SUM APPROPRIATION - ADMIN	9,654,200	10,158,800	10,158,800
OTHER STATE AID TO DISTRICTS	983,900	983,900	—
RESULTS BASED FUNDING	37,600,000	39,106,547	39,106,547
RURAL ASSISTANCE	2,600,000	2,600,000	2,600,000
SCHOOL SAFETY PROGRAM	5,048,813	5,050,813	4,813,197
SPECIAL EDUCATION FUND	32,242,100	32,242,100	32,242,100
STATE BLOCK GRT FOR VOCATIONAL EDUCATION	11,576,300	11,576,300	11,576,300
TECH-BASED LANGUAGE DEVELOPMENT	232,262	232,262	231,662
TRIBAL COLLEGE DUAL ENROLLMENT PROGRAM FUND	250,000	250,000	179,875
EMERGENCY AND MILITARY AFFAIRS, DEPARTMENT OF			
ADEM MATCHING FUND	1,540,900	1,540,900	1,538,225
ADMIN ADJUSTMENT ADMINISTRATION	—	2,561	2,561
ADMINISTRATION	1,818,000	1,836,000	1,820,787
DISASTER DECLARATION	1,782,086	5,782,086	5,782,086
EMERGENCY MANAGEMENT	725,200	735,000	734,995
FEDRUARY 2005 WINTER STORMS	49,785	49,785	—
HAZARD MATERIAL CONTINGENCY	1,897	1,897	—
MILITARY AFFAIRS	1,321,000	1,336,400	1,316,801
MILITARY AFFAIRS COMMISSION	60,059	150,059	88,526
NUCLEAR EMERGENCY MANAGEMENT FUND - GF TSF	—	665,512	—
NUCLEAR EMERGENCY MANAGEMENT FUND - BUCKEYE - GF TSF	—	70,000	—
NUCLEAR EMERGENCY MANAGEMENT FUND - MARICOPA - GF TSF	—	702,953	—
SERVICE CONTRACTS	2,911,497	2,911,497	1,341,250
ENVIRONMENTAL QUALITY, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	134,243	134,243
OPERATING LUMP SUM APPROPRIATION	13,508,000	13,596,800	516,087
EQUAL OPPORTUNITY, GOVERNOR'S OFFICE OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	60	60
OPERATING LUMP SUM APPROPRIATION	189,100	191,900	190,455
EQUALIZATION, STATE BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	6,187	6,187
OPERATING LUMP SUM APPROPRIATION	643,000	646,400	506,880
EXECUTIVE CLEMENCY, BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	50,635	50,635
OPERATING LUMP SUM APPROPRIATION	952,600	963,500	869,561
FINANCIAL INSTITUTIONS, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	8,095	8,095
OPERATING LUMP SUM APPROPRIATION	1,478,200	1,518,600	1,476,968
REAL ESTATE APPRAISAL	—	682,400	669,980
FORESTRY AND FIRE MANAGEMENT, DEPARTMENT OF			
ADMIN ADJUSTMENT GENERAL FUND TRSF TO FIRE SUPPRESSION	—	350,455	350,455
ADMIN ADJUSTMENT HAZARDOUS VEGETATION REMOVAL	—	283,633	283,633

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, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	44,604	44,604
ADMIN ADJUSTMENT STATE FIRE MARSHAL	—	16,188	16,188
ADMIN ADJUSTMENT STATE FIRE SCHOOL	—	469	469
ENVIRONMENTAL COUNTY GRANTS	250,000	250,000	250,000
FIRE SUPPRESSION COSTS BFY17 AND BFY18	—	4,078,000	4,078,000
FIRE SUPPRESSION SLI	1,065,000	1,065,000	1,065,000
GENERAL FUND TRSF TO FIRE SUPPRESSION	—	3,000,000	3,000,000
HAZARDOUS VEGETATION REMOVAL	1,350,000	1,350,000	580,477
INMATE FIRE CREWS	686,200	699,100	654,443
OPERATING LUMP SUM APPROPRIATION	3,124,300	3,167,000	3,042,084
POSTRELEASE FIREFIGHTING CREWS	1,465,100	1,465,100	822,907
STATE FIRE MARSHAL	742,600	753,200	744,584
STATE FIRE SCHOOL	172,100	173,100	168,970
GAMING, DEPARTMENT OF			
COUNTY FAIR LIVESTOCK AND AGRICULTURAL	1,779,500	1,779,500	1,779,500
GENERAL ACCOUNTING OFFICE			
ADDITIONAL GILA WORKFORCE DEVELOPMENT AID	250,000	250,000	250,000
EQUALIZATION AID - COCHISE	5,210,200	5,210,200	5,210,200
EQUALIZATION AID - GRAHAM	15,028,600	15,028,600	15,028,600
EQUALIZATION AID - NAVAJO	6,672,100	6,672,100	6,672,100
GENERAL FUND TRANSFERS	—	38,678,600	38,678,600
OPERATING STATE AID - COCHISE	4,589,600	4,589,600	4,589,600
OPERATING STATE AID - COCONINO	1,731,100	1,731,100	1,731,100
OPERATING STATE AID - GILA	298,400	298,400	298,400
OPERATING STATE AID - GRAHAM	2,288,300	2,288,300	2,288,300
OPERATING STATE AID - MOHAVE	1,195,500	1,195,500	1,195,500
OPERATING STATE AID - NAVAJO	1,649,000	1,649,000	1,649,000
OPERATING STATE AID - PINAL	1,621,400	1,621,400	1,621,400
OPERATING STATE AID - SANTA CRUZ	96,800	96,800	96,800
OPERATING STATE AID - YAVAPAI	639,400	639,400	639,400
OPERATING STATE AID - YUMA LA PAZ	2,622,100	2,622,100	2,622,100
RURAL COUNTY REIMBURSEMENT SUBSIDY	1,273,800	1,273,800	1,273,800
STEM AND WORKFORCE PROGRAM STATE AID - COCHISE	986,400	986,400	986,400
STEM AND WORKFORCE PROGRAM STATE AID - COCONINO	409,000	409,000	409,000
STEM AND WORKFORCE PROGRAM STATE AID - GILA	136,500	136,500	136,500
STEM AND WORKFORCE PROGRAM STATE AID - GRAHAM	609,000	609,000	609,000
STEM AND WORKFORCE PROGRAM STATE AID - MOHAVE	462,500	462,500	462,500
STEM AND WORKFORCE PROGRAM STATE AID - NAVAJO	369,100	369,100	369,100
STEM AND WORKFORCE PROGRAM STATE AID - PINAL	96,500	96,500	96,500
STEM AND WORKFORCE PROGRAM STATE AID - YAVAPAI	717,000	717,000	717,000
STEM AND WORKFORCE PROGRAM STATE AID - SANTA CRUZ	67,000	67,000	67,000
STEM AND WORKFORCE PROGRAM STATE AID - YUMA LA PAZ	845,500	845,500	845,500
SWEEPS	12,300,000	12,300,000	12,300,000
WOOLSEY FLOOD DISTRICT	—	276,931	276,931
GOVERNOR, OFFICE OF THE			
COMPUTER SCIENCE INITIATIVE	—	200,000	158,436
FOSTER YOUTH EDUCATION SUCCESS	—	1,500,000	1,322,020
OPERATING LUMP SUM APPROPRIATION - OSPB	2,420,146	2,440,746	2,098,078
OPERATING LUMP SUM APPROPRIATION	7,832,249	7,903,749	7,053,161

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, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
SCHOOL LEADERSHIP TRAINING	—	250,000	250,000
HEALTH SERVICES, DEPARTMENT OF			
ADMIN ADJUSTMENT AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	—	1,184,141	1,184,141
ADMIN ADJUSTMENT AIDS REPORTING AND SURVEILLANCE	—	31,634	31,634
ADMIN ADJUSTMENT ARIZONA STATE HOSPITAL - OPERATING	—	3,001,321	3,001,321
ADMIN ADJUSTMENT ASH - SEXUALLY VIOLENT PERSONS	—	642,155	642,155
ADMIN ADJUSTMENT ASH - RESTORATION TO COMPETENCY	—	56,039	56,039
ADMIN ADJUSTMENT BREAST AND CERVICAL CANCER SCREENING	—	473,318	473,318
ADMIN ADJUSTMENT COUNTY TUBERCULOSIS PROVIDER CARE - CTL	—	80,541	80,541
ADMIN ADJUSTMENT HIGH RISK PERINATAL SERVICES	—	236,426	236,426
ADMIN ADJUSTMENT NON RENAL DISEASE MANAGEMENT	—	198,000	198,000
ADMIN ADJUSTMENT PEDIATRIC NEUROLOGICAL AUTOIMMUNE DISORDERS	—	48,609	48,609
ADULT CYSTIC FIBROSIS	105,200	105,200	78,900
AEA NUCLEAR EMERGENCY MANAGEMENT FUND	—	432,414	420,407
AEA OPERATING LUMP SUM APPROPRIATION	—	667,077	654,539
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	28,445,600	28,615,400	27,650,409
AIDS REPORTING AND SURVEILLANCE	1,000,000	1,000,000	872,136
ALZHEIMER DISEASE RESEARCH	125,000	125,000	125,000
ARIZONA STATE HOSPITAL - OPERATING	59,835,600	60,570,300	58,881,439
ASH - SEXUALLY VIOLENT PERSONS	9,639,100	9,766,900	9,099,883
ASH - CORRECTIVE ACTION PLAN SUP	398,060	398,060	—
ASH - RESTORATION TO COMPETENCY	900,000	900,000	507,043
BREAST AND CERVICAL CANCER SCREENING	1,369,400	1,369,400	1,022,533
COUNTY TUBERCULOSIS PROVIDER CARE - CTL	590,700	590,700	491,018
HIGH RISK PERINATAL SERVICES	2,093,400	2,093,400	1,937,321
MIDDLE AND HIGH SCHOOL PREVENTION ED PRG	9,739	9,739	—
NON RENAL DISEASE MANAGEMENT	198,000	198,000	47,208
POISON CONTROL CENTER FUNDING	990,000	990,000	904,328
RELIEF	—	900	900
RENAL TRANSPLANT DRUGS	183,000	183,000	137,250
HISTORICAL SOCIETY OF ARIZONA, PRESCOTT			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	18,566	18,566
OPERATING LUMP SUM APPROPRIATION	824,500	840,200	786,485
HISTORICAL SOCIETY, ARIZONA			
FIELD SERVICES AND GRANTS	66,000	66,300	66,300
OPERATING LUMP SUM APPROPRIATION	2,114,100	2,563,300	2,563,300
PAPAGO PARK MUSEUM	542,800	550,200	550,200
HOUSE OF REPRESENTATIVES			
OPERATING LUMP SUM APPROPRIATION	20,149,491	20,367,091	13,854,482
HOUSING, ARIZONA DEPARTMENT OF			
OPERATING LUMP SUM APPROPRIATION	811,400	830,000	246,065
INDEPENDENT REDISTRICTING COMMISSION			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	721	721
OPERATING LUMP SUM APPROPRIATION	24,031	24,031	71
INDIAN AFFAIRS, ARIZONA COMMISSION OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	509	509
OPERATING LUMP SUM APPROPRIATION	57,500	58,000	56,065
INDUSTRIAL COMMISSION OF ARIZONA			
OCCUPATIONAL SAFETY AND HEALTH APPROPRIATION	8,293	8,293	8

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, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
INSURANCE, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	48,322	48,322
OPERATING LUMP SUM APPROPRIATION	5,824,300	5,878,300	5,406,452
JOINT LEGISLATIVE BUDGET COMMITTEE			
OPERATING LUMP SUM APPROPRIATION	6,028,246	6,053,746	2,387,755
JUVENILE CORRECTIONS, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	30,466	30,466
OPERATING LUMP SUM APPROPRIATION	32,028,600	32,401,000	31,513,388
LAND DEPARTMENT, STATE			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	245,951	245,951
CAP USER FEES	994,400	1,443,500	1,443,420
DUE DILIGENCE FUND	500,000	500,000	—
NATURAL RESOURCE CONSERVATION DISTRICTS	389,400	389,400	389,400
OPERATING LUMP SUM APPROPRIATION	11,112,100	10,762,100	9,908,301
STREAMBED NAVIGABILITY LITIGATION	220,000	220,000	1,319
LEGISLATIVE COUNCIL			
OMBUDSMAN-CITIZENS AID OFFICE	1,006,513	1,006,513	871,299
OPERATING LUMP SUM APPROPRIATION	15,272,275	15,335,275	5,700,850
LIQUOR, LICENSES, AND CONTROL, DEPARTMENT OF			
LICENSING SYSTEM - REPLACEMENT	226,196	226,196	226,196
OPERATING LUMP SUM APPROPRIATION	3,007,400	3,047,500	3,030,833
MINE INSPECTOR, STATE			
ABANDONED MINES SAFETY FUND DEPOSIT	194,700	194,700	185,902
ADMIN ADJUSTMENT ABANDONED MINES SAFETY FUND DEPOSIT	—	2,292	2,292
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	10,777	10,777
OPERATING LUMP SUM APPROPRIATION	1,017,800	1,032,100	931,856
NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	1,726	1,726
OPERATING LUMP SUM APPROPRIATION	124,000	125,500	118,983
NORTHERN ARIZONA UNIVERSITY			
ARIZONA FINANCIAL AID TRUST	1,326,000	1,326,000	1,326,000
MEDICAL RESEARCH FND BIO TECHNOLOGY	—	3,000,000	3,000,000
NAU - YUMA	3,067,300	3,069,200	3,069,200
ONE TIME FUNDING	—	3,202,800	3,202,800
OPERATING LUMP SUM APPROPRIATION	89,712,300	89,827,700	89,827,700
RESEARCH INFRASTRUCTURE LEASE-PURCH PYMT	—	5,896,500	5,896,500
TEACHER TRAINING	2,290,600	2,290,600	2,290,600
PARKS BOARD, ARIZONA STATE			
ADMIN ADJUSTMENT KARTCHNER CAVERNS STATE PARK	—	40,750	40,750
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	470,682	470,682
GF C/O YARNELL HILL MEMORIAL SITE ACQUIS	5,396	5,396	4,434
KARTCHNER CAVERNS STATE PARK	2,226,300	2,257,100	1,878,938
OPERATING LUMP SUM APPROPRIATION	12,027,800	12,200,795	11,444,064
SPRF BSF STATE PARKS CAPITAL IMPROVEMENT	3,386,873	3,386,873	1,804,470
SPRF FY17 SUPPLEMENT MAJOR MAINTENANCE	874,126	874,126	720,055
SPRF ROCKIN' RIVER RANCH CAPITAL DEVELOPMENT	4,000,000	4,000,000	327,389
POSTSECONDARY EDUCATION, COMMISSION FOR			
COLLEGE-READINESS EXAMINATIONS PILOT	—	235,000	202,078
LEVERAGING EDUCATIONAL ASSISTANCE PRTSHP	1,220,800	1,220,800	1,220,800

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

(Continued)

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
MATH AND SCIENCE TEACHER INITIATIVE	426,000	426,000	426,000
PUBLIC SAFETY, DEPARTMENT OF			
ACTIC	750,000	750,000	597,926
ADMIN ADJUSTMENT ACTIC	—	158,295	158,295
ADMIN ADJUSTMENT BORDER STRIKE TASK FORCE LOCAL SUPPORT	—	30,512	30,512
ADMIN ADJUSTMENT BORDER STRIKE TASK FORCE ONE-TIME	—	4,102,827	4,102,827
ADMIN ADJUSTMENT BORDER STRIKE TASK FORCE ONGOING	—	197,767	197,767
ADMIN ADJUSTMENT GIITEM	—	243,827	243,827
ADMIN ADJUSTMENT GIITEM SUBACCOUNT	—	17,797	17,797
BORDER STRIKE TASK FORCE LOCAL SUPPORT	1,261,700	1,261,700	957,364
BORDER STRIKE TASK FORCE ONGOING	6,998,600	7,054,700	6,714,638
CIVIL AIR PATROL	150,000	150,000	150,000
GIITEM	22,017,300	22,202,200	20,353,300
GIITEM IMPACT APPROPRIATION	1,909,575	1,909,575	1,254,096
GIITEM SUBACCOUNT	2,390,000	2,390,000	2,238,481
MICROWAVE COMMUNICATION SYSTEM UPGRADE	2,824	2,824	—
MOTOR VEHICLE FUEL	4,384,200	3,954,600	3,815,350
OPERATING LUMP SUM APPROPRIATION	73,344,700	74,492,900	74,492,900
SEXUAL ASSAULT KIT TESTING	1,200,000	1,200,000	165,002
RADIATION REGULATORY AGENCY			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	13,887	13,887
NUCLEAR EMERGENCY MANAGEMENT FUND	—	357,249	357,249
OPERATING LUMP SUM APPROPRIATION	1,349,900	703,423	703,423
REAL ESTATE DEPARTMENT, STATE			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	49,341	49,341
OPERATING LUMP SUM APPROPRIATION	2,994,900	3,028,000	2,565,267
REGENTS, ARIZONA BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	42	42
ARIZONA TEACHERS INCENTIVE PROGRAM	90,000	90,000	90,000
AZ TRANSFER ARTICULATION SUPPORT SYSTEM	213,700	213,700	213,700
OPERATING LUMP SUM APPROPRIATION	2,352,500	2,374,600	2,340,558
WESTERN INTERSTATE COMMISSION OFFICE	145,000	149,000	149,000
WICHE STUDENT SUBSIDIES	4,086,000	4,082,000	4,082,000
REVENUE, DEPARTMENT OF			
ADMIN ADJUSTMENT BRITS OPERATIONAL SUPPORT	—	128,120	128,120
ADMIN ADJUSTMENT INCOME TAX FRAUD PREVENTION	—	300,530	300,530
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	1,674,969	1,674,969
ADMIN ADJUSTMENT TPT SIMPLIFICATION	—	19,277	19,277
ADMIN ADJUSTMENT UNCLAIMED PROPERTY ADMINISTRATION-AUDIT	—	87,835	87,835
BRITS OPERATIONAL SUPPORT	7,497,500	7,604,900	7,086,136
INCOME TAX FRAUD PREVENTION	3,150,000	3,150,000	3,133,064
OPERATING LUMP SUM APPROPRIATION	62,768,500	64,070,400	59,396,190
RELIEF	—	42,391	42,391
SWEEPS	8,000,000	8,000,000	8,000,000
TPT SIMPLIFICATION	970,400	1,005,300	930,995
UNCLAIMED PROPERTY ADMINISTRATION - AUDIT	1,218,500	1,461,268	1,461,268
VETERANS' INCOME TAX SETTLEMENT - ADMIN	—	97,616	54,462
SCHOOL FACILITIES BOARD			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	111,374	111,374

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, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
BUILDING RENEWAL GRANT	16,667,900	43,835,800	43,835,800
NEW SCHOOL CONSTRUCTION	63,929,800	63,929,800	63,929,800
NEW SCHOOL FACILITIES DEBT SERVICE	169,761,700	169,761,700	169,761,700
OPERATING LUMP SUM APPROPRIATION	1,666,700	1,680,700	1,619,221
SECRETARY OF STATE			
ADMIN ADJUSTMENT ELECTION SERVICES	—	42,556	42,556
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	231,220	231,220
BUILDING RENOVATION AND CODE COMPLIANCE	102,797	102,797	—
ELECTION FY18 CD8 SPECIAL	—	2,500,000	1,309,848
ELECTION SERVICES MAY 17	3,044,353	3,044,353	81,727
HELP AMERICA VOTE ACT	4,424,155	4,426,755	1,389,327
LIBRARY GRANTS-IN-AID	876,390	876,390	683,089
OPERATING LUMP SUM APPROPRIATION	12,076,700	12,193,500	11,767,890
STATEWIDE RADIO READING SVC FOR BLIND	97,000	97,000	97,000
SENATE			
BORDER SECURITY TRUST FUND	44,418	55,202	55,202
OPERATING LUMP SUM APPROPRIATION	10,780,445	10,920,045	9,301,696
SUPREME COURT			
ADMIN ADJUSTMENT AUTOMATION	—	4,547	4,547
ADMIN ADJUSTMENT CENTRALIZED SERVICE PAYMENTS	—	82,240	82,240
ADMIN ADJUSTMENT DOMESTIC RELATIONS	—	159	159
ADMIN ADJUSTMENT FOSTER CARE REVIEW BOARD	—	345	345
ADMIN ADJUSTMENT OPERATING LUMP SUM	—	3,816	3,816
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	23,367	23,367
ADULT INTENSIVE PROBATION	9,029,900	9,141,800	9,141,800
ADULT STANDARD PROBATION	13,892,500	13,991,600	13,991,600
AUTOMATION	6,849,400	6,909,400	6,180,053
CENTRALIZED SERVICE PAYMENTS	3,008,100	3,008,100	2,940,098
COMMISSION ON JUDICIAL CONDUCT	498,600	508,500	507,035
COUNTY REIMBURSEMENTS	187,900	187,900	187,900
COURT ORDERED REMOVAL	75,000	75,000	75,000
DEPENDENCY SURGE	1,770,435	1,770,435	1,770,435
DOMESTIC RELATIONS	613,400	625,600	624,312
DRUG COURT	993,600	993,600	993,600
FOSTER CARE REVIEW BOARD	3,178,500	3,205,000	3,203,925
INTERSTATE COMPACT	334,700	334,700	334,700
JUDGES COMPENSATION	8,399,500	8,367,300	8,186,997
JUDICIAL NOMINATION - PERFORMANCE REVIEW	409,100	416,300	416,043
JUVENILE DIVERSION CONSEQUENCES	8,157,800	8,157,800	8,157,800
JUVENILE FAMILY COUNSELING	500,000	500,000	500,000
JUVENILE INTENSIVE PROBATION	5,352,000	5,301,000	5,301,000
JUVENILE STANDARD PROBATION	3,460,400	3,300,400	3,300,400
JUVENILE TREATMENT SERVICES	19,960,900	19,960,900	19,960,900
MODEL COURT	437,600	439,500	439,425
OPERATING LUMP SUM	3,879,400	3,860,800	3,853,981
OPERATING LUMP SUM APPROPRIATION	10,740,500	10,725,700	10,557,855
SPECIAL WATER MASTER	190,700	190,700	187,143
TAX APPEALS, STATE BOARD OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	20	20

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, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
EMPLOYEE BENEFITS COSTS	—	11,100	11,100
OPERATING LUMP SUM APPROPRIATION	266,600	268,300	266,262
TOURISM, OFFICE OF			
TOURISM FUND DEPOSIT	7,112,000	7,112,000	7,112,000
TRANSPORTATION, DEPARTMENT OF			
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	117	117
INTERSTATE 10 PROJECTS	17,246,500	17,246,500	1,540,119
OPERATING LUMP SUM APPROPRIATION	50,400	50,500	49,699
SR189 CONSTRUCTION PROJECTS	25,000,000	25,000,000	25,000,000
TREASURER, STATE			
ADMIN ADJUSTMENT JUSTICE OF THE PEACE SALARIES	—	254,015	254,015
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	12,820	12,820
BUDGET STABILIZATION INTEREST TRANSFERS	—	1,500,000	1,500,000
COM COL REIMBURSEMENT ARS 15-1469-01	—	2,596,700	2,596,700
CORPORATE INCOME TAX TRANSFER	—	2,823,600	2,823,600
JUSTICE OF THE PEACE SALARIES	1,205,100	1,205,100	847,225
OPERATING LUMP SUM APPROPRIATION	3,159,300	3,195,600	3,114,980
UNIVERSITY OF ARIZONA			
AGRICULTURE	25,402,100	28,397,500	28,397,500
ARIZONA COOPERATIVE EXTENSION	14,458,100	14,458,100	14,458,100
ARIZONA FINANCIAL AID TRUST	2,729,400	2,729,400	2,729,400
ARIZONA GEOLOGICAL SURVEY	—	941,000	941,000
CLINICAL RURAL ROTATION	353,400	353,400	353,400
CLINICAL TEACHING SUPPORT	8,587,000	8,587,000	8,587,000
FREEDOM CENTER	2,500,000	3,500,000	3,500,000
LIVER RESEARCH INSTITUTE	440,100	440,100	440,100
MINING MINERAL AND NATURAL RESOURCES EDUCATIONAL MUSEUM	428,300	428,300	428,300
ONE TIME FUNDING	4,157,700	—	—
OPERATING LUMP SUM APPROPRIATION - HSC	33,985,500	34,903,400	34,903,400
OPERATING LUMP SUM APPROPRIATION - MAIN	131,975,600	132,382,100	132,382,100
PHOENIX MEDICAL CAMPUS	23,824,800	23,256,200	23,256,200
RESEARCH INFRASTRUCTURE FACILITIES	—	14,249,300	14,249,300
SIERRA VISTA CAMPUS	1,522,100	2,743,800	2,743,800
TELEMEDICINE NETWORK	1,669,000	1,669,000	1,669,000
VETERANS' SERVICES, DEPARTMENT OF			
ADMIN ADJUSTMENT ARIZONA STATE VETERANS CEMETERIES	—	8,362	8,362
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	23,501	23,501
ADMIN ADJUSTMENT VETERANS BENEFIT COUNSELING	—	15,296	15,296
ARIZONA STATE VETERANS CEMETERIES	924,200	935,200	898,297
ASVH - FLAGSTAFF CONSTRUCTION	10,000,000	10,000,000	—
ASVH - YUMA CONSTRUCTION	9,200,000	9,200,000	—
MILITARY FAMILY RELIEF FUND	15,291	15,291	—
OPERATING LUMP SUM APPROPRIATION	2,308,800	2,331,200	2,094,399
VETERANS BENEFIT COUNSELING	2,821,100	2,849,400	2,670,055
VETERANS' INCOME TAX SETTLEMENT	—	97,617	5,748
WATER RESOURCES, DEPARTMENT OF			
ADJUDICATION SUPPORT	1,724,800	1,749,500	1,715,447
ADMIN ADJUSTMENT AUTOMATED GROUNDWATER MONITORING	—	664	664
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	165,585	165,585

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, 2018
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ADMIN ADJUSTMENT RURAL WATER STUDIES	—	34,432	34,432
ARIZONA WATER PROTECTION FUND DEPOSIT	250,000	250,000	250,000
ASSURED - ADEQUATE WATER SUPPLY ADMIN	1,710,700	1,731,800	1,406,726
AUTOMATED GROUNDWATER MONITORING	408,700	413,100	244,984
CONSERVATION AND DROUGHT PROGRAM	406,900	412,300	216,736
DROUGHT CONTINGENCY PLAN	—	2,000,000	2,000,000
LOWER COLORADO RIVER LITIGATION EXPENSES	1,484,578	1,484,578	—
OPERATING LUMP SUM APPROPRIATION	8,205,400	8,266,800	8,083,639
RURAL WATER STUDIES	1,164,500	1,178,400	1,096,120
TOTAL GENERAL FUND BUDGETARY EXPENDITURES	<u>\$ 21,288,455,219</u>	<u>\$ 23,102,304,784</u>	<u>\$ 21,874,086,324</u>

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

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
TRANSPORTATION AND AVIATION PLANNING,
HIGHWAY MAINTENANCE AND SAFETY FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
TRANSPORTATION, DEPARTMENT OF			
ADMIN ADJUSTMENT FRAUD INVESTIGATION	\$ —	\$ 447	\$ 447
ADMIN ADJUSTMENT NEW THIRD PARTY FUNDING	—	71,007	71,007
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	—	2,803,193	2,803,193
AIRPORT PLANNING AND DEVELOPMENT	42,290,109	42,290,109	14,729,534
ATTORNEY GENERAL LEGAL SERVICES	3,577,700	3,577,700	3,577,700
BUILDING RENEWAL	7,636,842	7,636,842	4,527,293
DE ICER BUILDINGS	1,100,000	1,100,000	34,225
DRIVER SAFETY & LIVESTOCK CONTROL	2,400,000	2,400,000	2,356,449
FLAGSTAFF BUILDING EQUIPMENT	2,530,000	2,530,000	1,375
FRAUD INVESTIGATION	767,000	781,900	752,611
GRAND CANYON AIRPORT PROJECT	466,000	466,000	261,937
HIGHWAY MAINTENANCE	153,965,970	155,052,470	141,297,873
HIGHWAY CONSTRUCTION/REPAIR DISTRIBUTION	3,185,200	3,185,200	3,185,200
INTERSTATE 10 PROJECTS	12,753,500	12,753,500	—
NEW THIRD PARTY FUNDING	629,600	634,900	624,629
OPERATING LUMP SUM APPROPRIATION	205,403,700	208,600,600	202,117,019
PHOENIX AREA FREEWAY LIGHTING	1,500,000	1,500,000	1,500,000
RELIEF	—	54,190	54,190
SAFFORD EQUIPMENT SERVICE SHOP	4,000,000	4,000,000	—
STATEWIDE DRAINAGE STRUCTURES	4,300,000	4,300,000	4,179,515
STATEWIDE HIGHWAY CONSTRUCTION	571,751,229	571,751,229	130,396,702
SWEEPS	—	2,000,000	2,000,000
TEMPE IMPOUND STORAGE YARD	240,000	240,000	—
VEHICLE WASH SYSTEM	4,304,978	4,304,978	4,055,357
TOTAL TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND BUDGETARY EXPENDITURES	\$ 1,022,801,828	\$ 1,032,034,265	\$ 518,526,256

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, 2018

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, 2017 that affect available appropriations during fiscal year 2018. The final budget represents any appropriation bills passed during fiscal year 2018 for fiscal year 2018 plus the original budget. Appropriation bills passed after the end of fiscal year 2018 for fiscal year 2018 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):

Uses/outflows of resources	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund
	<u> </u>	<u> </u>
Actual expenditure amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 21,874,086	\$ 518,526
Differences – budget to GAAP:		
Increase (decrease) in unpaid incurred expenditures from fiscal year end 2017 to fiscal year end 2018	(5,194)	555,961
(Decrease) in unpaid payroll expenditures from fiscal year end 2017 to fiscal year end 2018. For budgetary reporting, final June 2017 payroll expenditures were charged to fiscal year 2018 budget and final June 2018 payroll expenditures were charged to fiscal year 2019 budget.	(2,819)	—
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	1,443,171	—
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.	702,270	—
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2018.	2,332,515	2,051,755
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(978,876)	(252,974)
	<u> </u>	<u> </u>
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 25,365,153</u>	<u>\$ 2,873,268</u>

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

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2018

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, \$1.8 billion in supplemental appropriations, net of mid-year reversions and adjustments, were provided to the General Fund. The Transportation and Aviation Planning, Highway Maintenance and Safety Fund appropriations increased by \$9.2 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, 2018

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 6,775 center lane miles (21,532 travel lane miles) of roads and 4,855 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 2018 and beyond was adopted by the Transportation Board on June 16, 2017.

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).

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
 JUNE 30, 2018

PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

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

The goal of the State is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the State’s highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2018, an overall rating of 3.57 was achieved, as shown in the following graph:

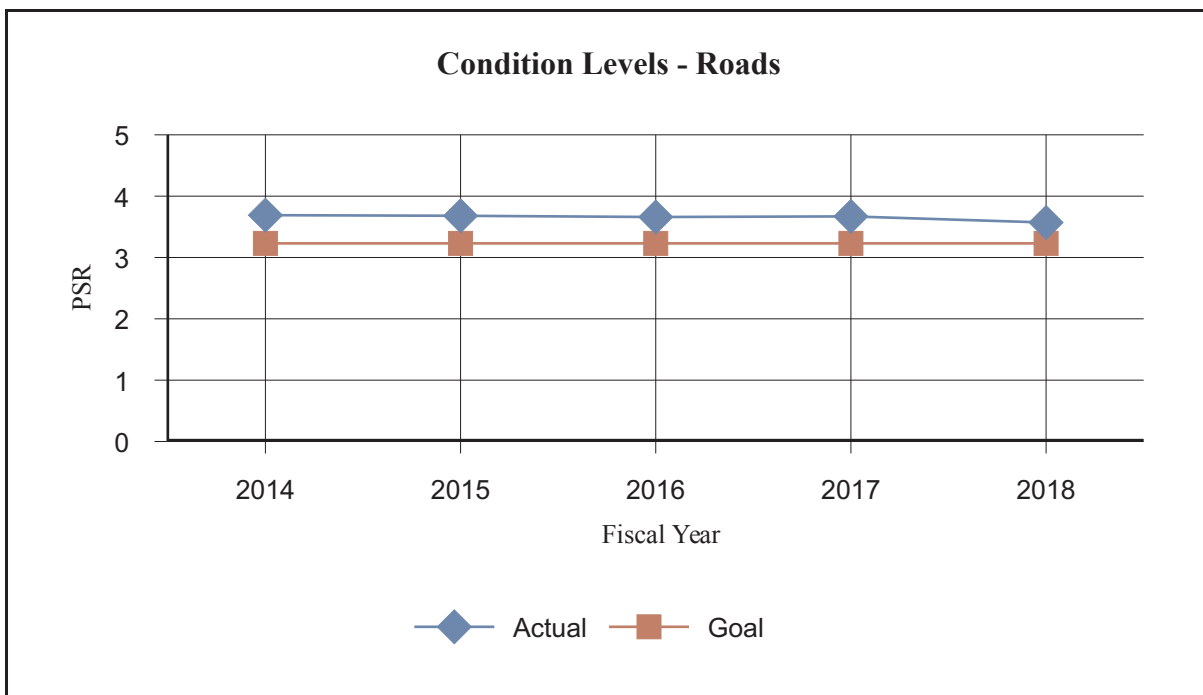


Figure 1

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 2014 through 2018 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2014	\$271.2	\$287.2
2015	\$249.5	\$300.6
2016	\$272.0	\$317.0
2017	\$322.4	\$186.4
2018	\$375.0	\$218.0

Bridges

The State’s bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2018, the State owned and maintained 4,855 bridges with an approximate total deck area of 44,079,903 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 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 Structure Inventory and Appraisal 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 2018, 1.4% 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.

Age of the State's Bridge Population

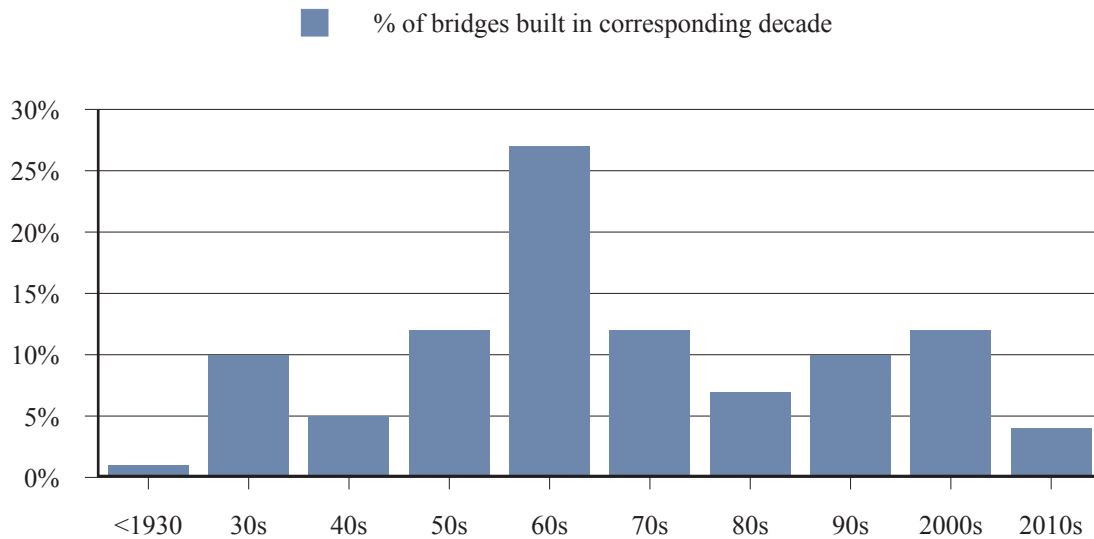


Figure 2

STATE OF ARIZONA
REQUIRED SUPPLEMENTARY INFORMATION
INFRASTRUCTURE ASSETS
JUNE 30, 2018

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 2014 through 2018 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2014	\$21.2	\$20.5
2015	\$13.7	\$21.9
2016	\$11.6	\$39.8
2017	\$28.8	\$23.4
2018	\$26.4	\$15.3

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 FOUR FISCAL YEARS (1)
 JUNE 30, 2018
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	21.89%	21.75%	21.67%	21.36%
State's proportionate share of the net pension liability	\$ 3,410,699	\$ 3,510,533	\$ 3,375,283	\$ 3,160,809
State's covered payroll	\$ 2,087,717	\$ 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	163.37%	172.15%	168.79%	163.01%
Plan fiduciary net position as a percentage of the total pension liability	69.92%	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 FOUR FISCAL YEARS (1)
 JUNE 30, 2018
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	18.61%	18.44%	18.67%	18.16%
State's proportionate share of the net pension liability	\$ 226,750	\$ 174,204	\$ 145,898	\$ 121,797
State's covered payroll	\$ 10,895	\$ 12,794	\$ 12,987	\$ 12,604
State's proportionate share of the net pension liability as a percentage of its covered payroll	2,081.23%	1,361.61%	1,123.42%	966.34%
Plan fiduciary net position as a percentage of the total pension liability	19.66%	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 FOUR FISCAL YEARS (1)
 JUNE 30, 2018
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
State's proportion of the net pension liability	13.99%	13.96%	19.33%	19.20%
State's proportionate share of the net pension liability	\$ 170,466	\$ 131,871	\$ 151,048	\$ 128,776
Plan fiduciary net position as a percentage of the total pension liability	19.66%	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 FOUR FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Reporting Fiscal Year (measurement date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability				
Service cost	\$ 18,914	\$ 14,131	\$ 13,258	\$ 13,111
Interest on the total pension liability	79,711	78,000	77,421	66,664
Changes of benefit terms	10,719	27,674	—	23,768
Differences between expected and actual experience in the measurement of the pension liability	17,144	(9,237)	(6,328)	(3,711)
Changes of assumptions or other inputs	49,120	35,783	—	107,172
Benefit payments, including refunds of employee contributions	(74,906)	(84,231)	(70,586)	(69,497)
Net change in total pension liability	100,702	62,120	13,765	137,507
Total pension liability - beginning	1,090,807	1,028,687	1,014,922	877,415
Total pension liability - ending (a)	<u>\$ 1,191,509</u>	<u>\$ 1,090,807</u>	<u>\$ 1,028,687</u>	<u>\$ 1,014,922</u>
Plan fiduciary net position				
Contributions - employer	\$ 61,001	\$ 52,115	\$ 36,889	\$ 31,458
Contributions - employee	8,899	9,334	7,857	7,587
Net investment income	38,483	1,963	12,867	46,223
Benefit payments, including refunds of employee contributions	(74,906)	(84,231)	(70,586)	(69,497)
Administrative expense	(341)	(283)	(317)	(372)
Other changes	(103)	545	150	393
Net change in plan fiduciary net position	33,033	(20,557)	(13,140)	15,792
Plan fiduciary net position - beginning	327,557	348,114	361,254	345,462
Plan fiduciary net position - ending (b)	<u>\$ 360,590</u>	<u>\$ 327,557</u>	<u>\$ 348,114</u>	<u>\$ 361,254</u>
State's net pension liability - ending (a) - (b)	<u>\$ 830,919</u>	<u>\$ 763,250</u>	<u>\$ 680,573</u>	<u>\$ 653,668</u>
Plan fiduciary net position as a percentage of the total pension liability	30.26%	30.03%	33.84%	35.59%
Covered payroll	\$ 78,246	\$ 68,573	\$ 66,707	\$ 63,334
State's net pension liability as a percentage of covered payroll	1,061.93%	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.

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 FOUR FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Reporting Fiscal Year (measurement date)			
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability				
Service cost	\$ 51,631	\$ 47,529	\$ 47,131	\$ 48,061
Interest on the total pension liability	113,227	111,087	108,123	92,486
Changes of benefit terms	239,128	2,464	—	21,354
Differences between expected and actual experience in the measurement of the pension liability	(11,373)	(36,180)	(30,179)	(3,818)
Changes of assumptions or other inputs	46,154	58,949	—	125,557
Benefit payments, including refunds of employee contributions	(92,181)	(90,460)	(84,586)	(83,365)
Net change in total pension liability	346,586	93,389	40,489	200,275
Total pension liability - beginning	1,529,975	1,436,586	1,396,097	1,195,822
Total pension liability - ending (a)	<u>\$ 1,876,561</u>	<u>\$ 1,529,975</u>	<u>\$ 1,436,586</u>	<u>\$ 1,396,097</u>
Plan fiduciary net position				
Contributions - employer	\$ 62,909	\$ 60,984	\$ 43,105	\$ 40,166
Contributions - employee	28,539	27,824	27,734	27,722
Net investment income	94,033	4,831	28,414	96,216
Benefit payments, including refunds of employee contributions	(92,181)	(90,460)	(84,586)	(83,365)
Administrative expense	(823)	(683)	(704)	(757)
Other changes	(388)	(340)	(1,040)	(446)
Net change in plan fiduciary net position	92,089	2,156	12,923	79,536
Plan fiduciary net position - beginning	791,084	788,928	776,005	696,469
Plan fiduciary net position - ending (b)	<u>\$ 883,173</u>	<u>\$ 791,084</u>	<u>\$ 788,928</u>	<u>\$ 776,005</u>
State's net pension liability - ending (a) - (b)	<u>\$ 993,388</u>	<u>\$ 738,891</u>	<u>\$ 647,658</u>	<u>\$ 620,092</u>
Plan fiduciary net position as a percentage of the total pension liability	47.06%	51.71%	54.92%	55.58%
Covered payroll	\$ 335,694	\$ 330,538	\$ 327,798	\$ 326,819
State's net pension liability as a percentage of covered payroll	295.92%	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 FIVE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	Fiscal Year				
	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 236,938	\$ 224,788	\$ 220,982	\$ 217,388	\$ 206,040
State's contributions in relation to the statutorily required contribution	236,938	224,788	220,982	217,388	206,040
State's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
State's covered payroll	\$ 2,175,916	\$ 2,087,717	\$ 2,039,238	\$ 1,999,691	\$ 1,939,038
State's contributions as a percentage of covered payroll	10.89%	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 FIVE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	Fiscal Year				
	2018	2017	2016	2015	2014
Statutorily required contribution (2)	\$ 3,564	\$ 3,389	\$ 3,805	\$ 3,928	\$ 3,870
State's contributions in relation to the statutorily required contribution (2)	3,564	3,389	3,805	3,928	3,870
State's contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
State's covered payroll	\$ 12,256	\$ 10,895	\$ 12,794	\$ 12,987	\$ 12,604
State's contributions as a percentage of covered payroll	29.08%	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 FIVE FISCAL YEARS (1)
 FISCAL YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	Fiscal Year				
	2018	2017	2016	2015	2014
Statutorily required contribution (2)	\$ 4,115	\$ 4,171	\$ 4,078	\$ 4,066	\$ 4,092
State's contributions in relation to the statutorily required contribution (2)	4,115	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 FIVE FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018	2017, as restated	2016	2015	2014
Actuarially determined contribution (2)	\$ 63,709	\$ 61,001	\$ 52,115	\$ 36,889	\$ 31,458
State's contributions in relation to the actuarially determined contribution (2)	63,709	61,001	52,115	36,889	31,458
State's contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
State's covered payroll (2)	\$ 73,183	\$ 78,246	\$ 68,573	\$ 66,707	\$ 63,334
State's contributions as a percentage of covered payroll	87.05%	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) State contributions reflect adjustments for employer-paid member contributions. Each year there is an immaterial difference between the estimated amount of employer-paid member contributions and the amount recognized by PSPRS. Fiscal year 2017 was restated using the employer contributions PSPRS recognized.

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 FIVE FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 66,031	\$ 62,909	\$ 60,984	\$ 43,105	\$ 40,166
State's contributions in relation to the actuarially determined contribution	66,031	62,909	60,984	43,105	40,166
State's contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
State's covered payroll	\$ 316,996	\$ 335,694	\$ 330,538	\$ 327,798	\$ 326,819
State's contributions as a percentage of covered payroll	20.83%	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, 2018

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-of-pay, closed
Remaining amortization period, as of the 2016 actuarial valuation	20 years
Asset valuation method	7-year smoothed market value, 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	PSPRS members with initial membership date before July 1, 2017, and CORP members with initial membership date before July 1, 2018: In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%. PSPRS members with initial membership on or after July 1, 2017: 7%
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)

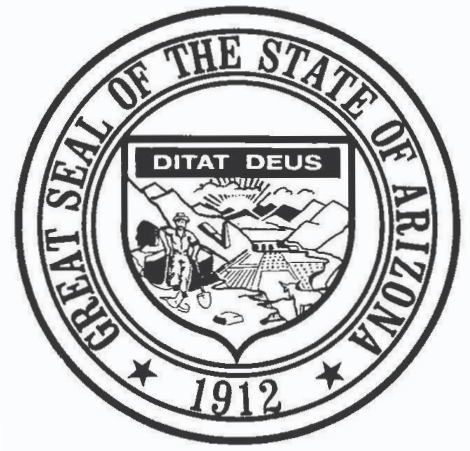
B. FACTORS THAT AFFECT TRENDS

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, CORP, and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS and CORP required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS and CORP required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP required contributions are not based on actuarial valuations, and therefore, these changes did not affect them.

STATE OF ARIZONA
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE STATE'S TOTAL OPEB LIABILITY AND RELATED RATIOS
ARIZONA DEPARTMENT OF ADMINISTRATION
 FOR THE LAST FISCAL YEAR (1)
 FISCAL YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	Reporting Fiscal Year (measurement date)
	2018 (2017)
Total OPEB liability	
Service cost	\$ 87,252
Interest on the total OPEB liability	32,182
Changes of benefit terms	(83,199)
Differences between expected and actual experience in the measurement of the OPEB liability	(30,663)
Changes of assumptions or other inputs	(273,577)
Benefit payments	(28,848)
Net change in total OPEB liability	\$ (296,853)
Total OPEB liability - beginning	1,143,616
Total OPEB liability - ending (2)	<u>\$ 846,763</u>
Covered-employee payroll	\$ 3,184,746
Total OPEB liability as a percentage of covered-employee payroll	26.59%

- (1) The State implemented GASB 75 in fiscal year 2018. Therefore, ten years of data is not available, but will be accumulated over time.
- (2) There are no dedicated assets at this time to offset the total OPEB liability.



COMBINING FINANCIAL
STATEMENTS AND
SCHEDULES

COMBINING FINANCIAL STATEMENTS AND SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

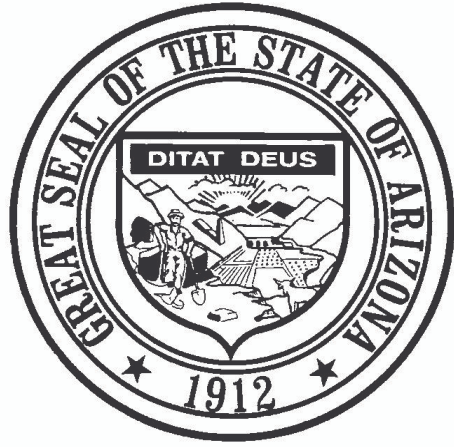
Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Pension Trust Funds or Component Units).

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
ASSETS				
Cash	\$ 3,503	\$ —	\$ —	\$ 3,503
Cash and pooled investments with State Treasurer	969,553	3,907	—	973,460
Receivables, net of allowances:				
Taxes	91,874	—	—	91,874
Other	28,562	—	—	28,562
Due from U.S. Government	19,039	—	—	19,039
Due from component units	10,170	—	—	10,170
Due from other funds	85,115	3,751	—	88,866
Restricted assets:				
Cash and pooled investments with State Treasurer	375,926	18,296	27,492	421,714
Cash held by trustee	186	38,768	—	38,954
Other	1,350	—	—	1,350
Total Assets	<u>\$ 1,585,278</u>	<u>\$ 64,722</u>	<u>\$ 27,492</u>	<u>\$ 1,677,492</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
Liabilities:				
Accounts payable and other current liabilities	\$ 51,741	\$ —	\$ 3,078	\$ 54,819
Accrued liabilities	59,295	—	—	59,295
Tax refunds payable	16	—	—	16
Due to local governments	163,597	—	—	163,597
Due to others	16,590	—	—	16,590
Due to other funds	9,925	—	—	9,925
Unearned revenue	1,598	—	—	1,598
Total Liabilities	<u>302,762</u>	<u>—</u>	<u>3,078</u>	<u>305,840</u>
Deferred Inflows of Resources:				
Unavailable revenue	453	—	—	453
Fund Balances:				
Restricted	550,383	64,722	24,414	639,519
Committed	731,680	—	—	731,680
Total Fund Balances	<u>1,282,063</u>	<u>64,722</u>	<u>24,414</u>	<u>1,371,199</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,585,278</u>	<u>\$ 64,722</u>	<u>\$ 27,492</u>	<u>\$ 1,677,492</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
REVENUES				
Taxes:				
Sales	\$ 571,246	\$ 64,133	\$ —	\$ 635,379
Income	227	—	—	227
Tobacco	239,228	—	—	239,228
Motor vehicle and fuel	160,740	—	—	160,740
Other	93,332	—	—	93,332
Intergovernmental	215,507	—	—	215,507
Licenses, fees, and permits	320,043	—	—	320,043
Hospital and nursing facility assessments	318,199	—	—	318,199
Earnings on investments	80,537	2,095	526	83,158
Sales and charges for services	49,137	—	—	49,137
Fines, forfeitures, and penalties	113,751	—	—	113,751
Gaming	88,577	—	—	88,577
Other	47,038	102	—	47,140
Total Revenues	<u>2,297,562</u>	<u>66,330</u>	<u>526</u>	<u>2,364,418</u>
EXPENDITURES				
Current:				
General government	125,610	5,117	—	130,727
Health and welfare	707,046	—	—	707,046
Inspection and regulation	120,785	—	—	120,785
Education	842,461	—	—	842,461
Protection and safety	305,500	—	—	305,500
Transportation	—	—	28,318	28,318
Natural resources	143,447	—	—	143,447
Debt service:				
Principal	2,375	362,705	—	365,080
Interest and other fiscal charges	790	183,586	425	184,801
Capital outlay	28,341	—	25,246	53,587
Total Expenditures	<u>2,276,355</u>	<u>551,408</u>	<u>53,989</u>	<u>2,881,752</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>21,207</u>	<u>(485,078)</u>	<u>(53,463)</u>	<u>(517,334)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	149,485	461,312	—	610,797
Transfers out	(118,475)	—	—	(118,475)
Grant anticipation notes issued	—	—	62,595	62,595
Refunding certificates of participation issued	—	31,570	—	31,570
Payment to refunded certificates of participation escrow agent	—	(31,345)	—	(31,345)
Premium on debt issued	—	—	12,839	12,839
Total Other Financing Sources (Uses)	<u>31,010</u>	<u>461,537</u>	<u>75,434</u>	<u>567,981</u>
Net Change in Fund Balances	52,217	(23,541)	21,971	50,647
Fund Balances - Beginning	1,229,846	88,263	2,443	1,320,552
Fund Balances - Ending	<u>\$ 1,282,063</u>	<u>\$ 64,722</u>	<u>\$ 24,414</u>	<u>\$ 1,371,199</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, 2018
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
ASSETS						
Cash	\$ 3,456	\$ —	\$ —	\$ —	\$ —	\$ 17
Cash and pooled investments with State Treasurer	114,684	124,488	203,659	6,669	89,057	166,536
Receivables, net of allowances:						
Taxes	4,980	256	8,179	16,764	—	—
Other	1	751	7,316	—	6	4,794
Due from U.S. Government	—	—	19,039	—	—	—
Due from component unit	—	—	—	—	—	—
Due from other funds	6,455	7,415	2,398	485	1,274	—
Restricted assets:						
Cash and pooled investments with State Treasurer	—	—	1,084	374,842	—	—
Cash held by trustee	—	—	—	—	—	—
Other	1,350	—	—	—	—	—
Total Assets	\$ 130,926	\$ 132,910	\$ 241,675	\$ 398,760	\$ 90,337	\$ 171,347
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$ 23,129	\$ 5,237	\$ 6,749	\$ 4,937	\$ 1,959	\$ 2,193
Accrued liabilities	8,596	862	41,644	562	1,218	3,750
Tax refunds payable	—	16	—	—	—	—
Due to local governments	—	—	—	—	—	—
Due to others	—	—	—	16,019	197	368
Due to other funds	—	115	1,789	8,021	—	—
Unearned revenue	—	—	752	—	—	846
Total Liabilities	31,725	6,230	50,934	29,539	3,374	7,157
Deferred Inflows of Resources:						
Unavailable revenue	—	—	453	—	—	—
Fund Balances:						
Restricted	—	—	58,784	369,221	6,257	2,385
Committed	99,201	126,680	131,504	—	80,706	161,805
Total Fund Balances	99,201	126,680	190,288	369,221	86,963	164,190
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 130,926	\$ 132,910	\$ 241,675	\$ 398,760	\$ 90,337	\$ 171,347

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 30	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,503
62,425	14,445	37,253	98,515	22,713	29,109	969,553
—	—	—	61,695	—	—	91,874
2,011	—	1	13,680	—	2	28,562
—	—	—	—	—	—	19,039
—	—	10,170	—	—	—	10,170
136	1,180	—	65,772	—	—	85,115
—	—	—	—	—	—	375,926
186	—	—	—	—	—	186
—	—	—	—	—	—	1,350
<u>\$ 64,788</u>	<u>\$ 15,625</u>	<u>\$ 47,424</u>	<u>\$ 239,662</u>	<u>\$ 22,713</u>	<u>\$ 29,111</u>	<u>\$ 1,585,278</u>
\$ 1,640	\$ 3,097	\$ 1,740	\$ 597	\$ 243	\$ 220	\$ 51,741
2,065	183	186	164	35	30	59,295
—	—	—	—	—	—	16
—	—	—	163,597	—	—	163,597
—	—	6	—	—	—	16,590
—	—	—	—	—	—	9,925
—	—	—	—	—	—	1,598
<u>3,705</u>	<u>3,280</u>	<u>1,932</u>	<u>164,358</u>	<u>278</u>	<u>250</u>	<u>302,762</u>
—	—	—	—	—	—	453
9,571	—	—	75,304	—	28,861	550,383
<u>51,512</u>	<u>12,345</u>	<u>45,492</u>	<u>—</u>	<u>22,435</u>	<u>—</u>	<u>731,680</u>
<u>61,083</u>	<u>12,345</u>	<u>45,492</u>	<u>75,304</u>	<u>22,435</u>	<u>28,861</u>	<u>1,282,063</u>
<u>\$ 64,788</u>	<u>\$ 15,625</u>	<u>\$ 47,424</u>	<u>\$ 239,662</u>	<u>\$ 22,713</u>	<u>\$ 29,111</u>	<u>\$ 1,585,278</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES**
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES	REGULATING & LICENSING
REVENUES						
Taxes:						
Sales	\$ 16,906	\$ 708	\$ 4,291	\$ —	\$ —	\$ —
Income	—	—	227	—	—	—
Tobacco	5,086	—	7,548	226,594	—	—
Motor vehicle and fuel	112,887	32,873	2,289	—	—	—
Other	63,344	1,800	—	—	—	28,188
Intergovernmental	29,675	129	145,093	139	1,296	257
Licenses, fees, and permits	26,453	57,153	39,958	—	26,851	106,290
Hospital and nursing facility assessments	—	—	318,199	—	—	—
Earnings on investments	610	1,527	741	3,902	304	616
Sales and charges for services	16,230	—	2,400	—	734	4,386
Fines, forfeitures, and penalties	58,890	1,453	6,834	—	36,451	2,505
Gaming	—	—	23,783	—	—	10,473
Other	46	34	6,840	1,235	288	1,435
Total Revenues	330,127	95,677	558,203	231,870	65,924	154,150
EXPENDITURES						
Current:						
General government	31,237	1,439	3,415	579	66,787	1,985
Health and welfare	—	77,500	508,285	112,878	—	8,383
Inspection and regulation	—	1,404	—	—	20	119,361
Education	—	—	—	143,097	—	—
Protection and safety	305,500	—	—	—	—	—
Natural resources	42,061	264	—	—	—	—
Debt service:						
Principal	1,685	—	—	—	—	—
Interest and other fiscal charges	76	—	—	—	—	1
Capital outlay	13,157	321	943	—	605	340
Total Expenditures	393,716	80,928	512,643	256,554	67,412	130,070
Excess (Deficiency) of Revenues Over Expenditures	(63,589)	14,749	45,560	(24,684)	(1,488)	24,080
OTHER FINANCING SOURCES (USES)						
Transfers in	105,218	2,824	15,963	6,217	1,473	2,437
Transfers out	(35,799)	(24,720)	(12,858)	(509)	(5,650)	(24,055)
Total Other Financing Sources (Uses)	69,419	(21,896)	3,105	5,708	(4,177)	(21,618)
Net Change in Fund Balances	5,830	(7,147)	48,665	(18,976)	(5,665)	2,462
Fund Balances - Beginning	93,371	133,827	141,623	388,197	92,628	161,728
Fund Balances - Ending	\$ 99,201	\$ 126,680	\$ 190,288	\$ 369,221	\$ 86,963	\$ 164,190

GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 1	\$ —	\$ —	\$ 549,340	\$ —	\$ —	\$ 571,246
—	—	—	—	—	—	227
—	—	—	—	—	—	239,228
1,401	11,096	—	194	—	—	160,740
—	—	—	—	—	—	93,332
35,878	—	2,014	1,026	—	—	215,507
42,567	1,642	8,818	4,006	6,305	—	320,043
—	—	—	—	—	—	318,199
837	214	456	71,030	300	—	80,537
3,298	—	264	21,824	1	—	49,137
252	—	—	—	—	7,366	113,751
6,790	—	—	47,531	—	—	88,577
1,718	80	19,910	6,715	8,648	89	47,038
<u>92,742</u>	<u>13,032</u>	<u>31,462</u>	<u>701,666</u>	<u>15,254</u>	<u>7,455</u>	<u>2,297,562</u>
—	—	14,991	—	—	5,177	125,610
—	—	—	—	—	—	707,046
—	—	—	—	—	—	120,785
—	—	15	699,349	—	—	842,461
—	—	—	—	—	—	305,500
76,888	12,907	—	—	11,327	—	143,447
690	—	—	—	—	—	2,375
713	—	—	—	—	—	790
11,089	1,884	2	—	—	—	28,341
<u>89,380</u>	<u>14,791</u>	<u>15,008</u>	<u>699,349</u>	<u>11,327</u>	<u>5,177</u>	<u>2,276,355</u>
<u>3,362</u>	<u>(1,759)</u>	<u>16,454</u>	<u>2,317</u>	<u>3,927</u>	<u>2,278</u>	<u>21,207</u>
10,165	—	—	4,938	250	—	149,485
(8,163)	(116)	(5,446)	(342)	(814)	(3)	(118,475)
<u>2,002</u>	<u>(116)</u>	<u>(5,446)</u>	<u>4,596</u>	<u>(564)</u>	<u>(3)</u>	<u>31,010</u>
5,364	(1,875)	11,008	6,913	3,363	2,275	52,217
55,719	14,220	34,484	68,391	19,072	26,586	1,229,846
<u>\$ 61,083</u>	<u>\$ 12,345</u>	<u>\$ 45,492</u>	<u>\$ 75,304</u>	<u>\$ 22,435</u>	<u>\$ 28,861</u>	<u>\$ 1,282,063</u>

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ACCOUNTANCY, ARIZONA STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	\$ 21,748	\$ 21,748
OPERATING LUMP SUM APPROPRIATION	2,042,200	1,467,553
ACUPUNCTURE BOARD OF EXAMINERS		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,749	2,749
AGENCY RELOCATION COSTS	2,100	2,100
ANNUAL LEAVE PAYOUT	13,200	—
OPERATING LUMP SUM APPROPRIATION	172,300	119,105
SWEEPS	45,900	45,900
ADMINISTRATION, ARIZONA DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	131,930	131,930
OPERATING LUMP SUM APPROPRIATION	1,500,900	952,289
SWEEPS	188,000	188,000
AGRICULTURE, ARIZONA DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	23,458	23,458
OPERATING LUMP SUM APPROPRIATION	1,441,500	1,332,837
AHCCCS - ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM		
ACA ADULT EXPANSION	25,307,400	23,168,587
ADMIN ADJUSTMENT PROPOSITION 204 SERVICES	8,926,196	8,926,196
ALTCS SERVICES	108,974,800	108,823,894
CRISIS SERVICES	2,250,200	2,250,200
MEDICAID BEHAVIORAL HEALTH ADULT EXPANSION SERVICES	481,300	481,300
MEDICAID BEHAVIORAL HEALTH TRADITIONAL SERVICES	35,565,800	32,623,451
PROPOSITION 204 SERVICES	279,968,200	238,985,287
TRADITIONAL MEDICAID SERVICES	37,432,400	36,862,614
ATHLETIC TRAINING, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	4,610	4,610
AGENCY RELOCATION COSTS	2,200	2,200
OPERATING LUMP SUM APPROPRIATION	120,600	106,190
SWEEPS	45,900	45,900
ATTORNEY GENERAL - DEPARTMENT OF LAW		
ADMIN ADJUSTMENT FEDERALISM UNIT	23,300	23,300
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	401,195	401,195
ADMIN ADJUSTMENT TOBACCO ENFORCEMENT	70	70
ADMIN ADJUSTMENT VICTIMS RIGHTS	11,314	11,314
FEDERALISM UNIT	1,005,100	639,845
GRANTS FOR OPIOID EDUCATION AND PREVENTION EFFORTS	400,600	—
OPERATING LUMP SUM APPROPRIATION	11,759,100	10,037,614
PAD NATIONAL MORTGAGE SETTLEMENT	17,232,347	353,773
TOBACCO ENFORCEMENT	738,600	163,737
VICTIMS RIGHTS	3,761,300	3,337,237
AUDITOR GENERAL		
SPECIAL AUDIT OF THE CENTRAL ARIZONA WATER CONSERVATION DIST	200,000	—
AUTOMOBILE THEFT AUTHORITY		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	748	748
ARIZONA VEHICLE THEFT TASK FORCE	3,650,000	3,650,000
LOCAL GRANTS	957,700	946,572
OPERATING LUMP SUM APPROPRIATION	643,700	596,680
REIMBURSABLE PROGRAMS	50,000	—

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
BARBERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,819	1,819
AGENCY RELOCATION COSTS	10,100	10,100
OPERATING LUMP SUM APPROPRIATION	345,800	327,030
SWEEPS	40,000	40,000
BEHAVIORAL HEALTH EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	5,445	5,445
AGENCY RELOCATION COSTS	32,600	32,600
OPERATING LUMP SUM APPROPRIATION	1,777,800	1,396,003
CHILD SAFETY, DEPARTMENT OF		
ADMIN ADJUSTMENT DCS IN-HOME MITIGATION	816,443	816,443
DCS - CASEWORKERS	207,100	—
DCS IN-HOME MITIGATION	1,459,300	307,429
CHIROPRACTIC EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	23	23
AGENCY RELOCATION COSTS	11,400	11,400
OPERATING LUMP SUM APPROPRIATION	455,100	401,713
CONTRACTORS, REGISTRAR OF		
ADMIN ADJUSTMENT OFFICE OF ADMINISTRATIVE HEARINGS COSTS	185,887	185,887
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	6,429	6,429
OFFICE OF ADMINISTRATIVE HEARINGS COSTS	1,017,600	137,027
OPERATING LUMP SUM APPROPRIATION	11,250,800	8,317,662
CORPORATION COMMISSION		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	74,544	74,544
ANNUAL REVERSION	2,237,521	2,237,521
ANNUAL REVERSION PUBLIC ACCESS FUND	1,411,778	1,411,778
CORPORATION FILINGS, SAME DAY SERVICE	401,300	—
INVESTIGATE-PROSECUTE SECUR FRD	26,509	—
OPERATING LUMP SUM APPROPRIATION	25,819,500	25,610,846
UTILITY, AUDIT, STUDY, INVEST, HEAR	1,152,600	—
CORRECTIONS, STATE DEPARTMENT OF		
ADMIN ADJUSTMENT INMATE HEALTH CARE CONTRACTED SERVICES	3,754,558	3,754,558
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,302,875	2,302,875
ADMIN ADJUSTMENT PRIVATE PRISON PER DIEM	9,147,973	9,147,973
CASH TRANSFER TO BUILDING RENEWAL FUND	2,500,000	2,500,000
INMATE HEALTH CARE CONTRACTED SERVICES	10,000,000	6,071,146
OPERATING LUMP SUM APPROPRIATION	6,442,600	3,441,599
PRIVATE PRISON PER DIEM	27,311,500	14,026,254
COSMETOLOGY, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	5,605	5,605
AGENCY RELOCATION COSTS	50,800	50,800
ANNUAL LEAVE PAYOUT	34,200	—
OPERATING LUMP SUM APPROPRIATION	1,830,300	1,681,448
CRIMINAL JUSTICE COMMISSION, ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	759	759
OPERATING LUMP SUM APPROPRIATION	1,256,300	1,104,371
PRE-TRIAL INTERVENTION	750,000	750,000
STATE AID TO COUNTY ATTORNEYS	973,700	790,398
VICTIM COMPENSATION - ASSISTANCE	4,222,600	3,906,598

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DEAF AND HARD OF HEARING, COMMISSION FOR THE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	160,489	160,489
INTERPRETER CERT AND LICENSURE	255,313	6,322
OPERATING LUMP SUM APPROPRIATION	4,430,600	3,076,666
SUPPORT SERVICES FOR THE DEAF-BLIND	192,000	3,960
DENTAL EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	8,620	8,620
AGENCY RELOCATION COSTS	26,700	26,700
OPERATING LUMP SUM APPROPRIATION	1,229,900	1,061,595
ECONOMIC SECURITY, DEPARTMENT OF		
ADMIN ADJUSTMENT ADULT SERVICES	181,037	181,037
ADMIN ADJUSTMENT ATTORNEY GENERAL LEGAL SERVICES	435	435
ADMIN ADJUSTMENT DES OPERATING LUMP SUM	346,983	346,983
ADMIN ADJUSTMENT DOMESTIC VIOLENCE PREVENTION	576,328	576,328
ADMIN ADJUSTMENT HOME & COMMUNITY SERVICES - STATE ONLY	31,773	31,773
ADMIN ADJUSTMENT INDEPENDENT LIVING REHABILITATION SVCS	60,602	60,602
ADMIN ADJUSTMENT REHABILITATION SERVICES	360,590	360,590
ADULT SERVICES	700,000	607,720
ATTORNEY GENERAL LEGAL SERVICES	97,800	3,603
DES OPERATING LUMP SUM	4,593,500	3,627,099
DOMESTIC VIOLENCE PREVENTION	4,100,000	1,740,773
HOME AND COMMUNITY SERVICES - STATE ONLY	120,000	—
INDEPENDENT LIVING REHABILITATION SERVICES	1,123,400	1,076,829
JOBS	1,110,900	—
REHABILITATION SERVICES	654,700	483,878
EDUCATION, DEPARTMENT OF		
ACCOUNTABILITY-SCHOOL SAFETY - PROP 301	10,328,377	6,369,250
ACHIEVEMENT TESTING - PROP 301	15,729,444	9,462,487
ADDITIONAL SCHOOL DAYS - PROP301	86,280,500	86,280,500
CHARACTER EDUCATION - PROP 301	249,160	131,645
FAILING SCHOOL TUTORING - PROP 301	2,373,768	1,256,473
OPERATING LUMP SUM APPROPRIATION - ADMIN	3,215,900	752,960
TEACHER CERTIFICATION	1,847,300	1,576,105
ENVIRONMENTAL QUALITY, DEPARTMENT OF		
ADMIN ADJUSTMENT EMISSIONS CONTROL - CONTRACTOR PAYMENTS	288,654	288,654
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,234,879	1,234,879
ADMIN ADJUSTMENT SAFE DRINKING WATER PROGRAM	3,703	3,703
EMISSIONS CONTROL - CONTRACTOR PAYMENTS	22,119,500	21,232,531
OPERATING LUMP SUM APPROPRIATION	31,992,800	21,604,270
SAFE DRINKING WATER PROGRAM	1,800,000	1,603,276
SWEEPS	8,000,000	8,000,000
WQARF TRANSFERS	10,713,300	10,713,300
FINANCIAL INSTITUTIONS, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,576	2,576
ADMIN ADJUSTMENT REAL ESTATE APPRAISAL	6,655	6,655
OPERATING LUMP SUM APPROPRIATION	3,226,800	3,213,405
REAL ESTATE APPRAISAL	815,100	85,831
SWEEPS	5,513,191	5,513,191

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
FUNERAL DIRECTORS AND EMBALMERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,829	1,829
AGENCY RELOCATION COSTS	7,600	7,600
OPERATING LUMP SUM APPROPRIATION	378,200	312,158
SWEEPS	27,500	27,500
GAME AND FISH DEPARTMENT, ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	594,539	594,539
BLACK CANYON DAM MODIFICATIONS	89,523	—
BUILDING RENEWAL	558,039	388,873
CAPITAL IMPROVEMENTS	3,118,272	311,710
DAM MAINTENANCE	392,667	—
GAME AND FISH TRUCKS	485,700	473,586
OPERATING LUMP SUM APPROPRIATION	42,122,500	34,231,894
PROPERTY MAINTENANCE	4,726	—
RADIO TOWER	93,872	19,880
REGIONAL KINGMAN OFFICE REMODEL	514,388	—
SWEEPS	1,000,000	1,000,000
WATERCRAFT BOAT STRUCTURES	828,826	647,649
WATERCRAFT GRANT PROGRAM	1,000,000	—
WATERCRAFT SAFETY EQUIPMENT	701,000	447,748
GAMING, DEPARTMENT OF		
ADDITIONAL OPERATING EXPENSES	768,400	34,942
ADMIN ADJUSTMENT DIVISION OF RACING - LUMP SUM	1,213	1,213
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	6,580	6,580
ARIZONA BREEDERS AWARD	250,000	250,000
CASINO OPERATION CERTIFICATION	2,105,400	1,594,781
DIVISION OF RACING - LUMP SUM	1,917,900	1,517,478
OPERATING LUMP SUM APPROPRIATION	8,295,500	8,088,579
PROBLEM GAMBLING	2,287,000	2,230,600
HEALTH SERVICES, DEPARTMENT OF		
ADMIN ADJUSTMENT AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	485,134	485,134
ADMIN ADJUSTMENT FOLIC ACID	27,356	27,356
ADMIN ADJUSTMENT HIGH RISK PERINATAL SERVICES	125,381	125,381
ADMIN ADJUSTMENT NEWBORN SCREENING PROGRAM	21,425	21,425
ADMIN ADJUSTMENT RENAL DENTAL CARE AND NUTRITION SUPPLEMENT	75,000	75,000
AEA OPERATING LUMP SUM APPROPRIATION	146,487	140,265
AGENCYWIDE OPERATING LUMP SUM APPROPRIATION	18,364,500	16,492,405
ALZHEIMER DISEASE RESEARCH	2,000,000	2,000,000
EMERGENCY MEDICAL SERVICES LOCAL ALLOCATION	442,000	442,000
FOLIC ACID	400,000	359,642
GENOMICS-BASED MEDICAL RESEARCH	2,508,750	2,000,000
HIGH RISK PERINATAL SERVICES	450,000	408,551
NEWBORN SCREENING PROGRAM	7,242,100	6,592,726
NURSING CARE SPECIAL PROJECTS	100,000	—
OPIOID ABUSE PREVENTION CAMPAIGN	400,600	—
RENAL DENTAL CARE AND NUTRITION SUPPLEMENT	300,000	225,000
STATE LOAN REPAYMENT PROGRAM	1,000,000	765,118
SWEEPS	2,000,000	2,000,000

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
HOMEOPATHIC AND INTEGRATED MEDICINE EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	6,207	6,207
AGENCY RELOCATION COSTS	2,100	2,100
OPERATING LUMP SUM APPROPRIATION	89,000	64,602
HOUSING, ARIZONA DEPARTMENT OF		
OPERATING LUMP SUM APPROPRIATION	323,200	323,200
INDUSTRIAL COMMISSION OF ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	210,118	210,118
OPERATING LUMP SUM APPROPRIATION	20,110,400	18,016,821
RELIEF	440	440
SWEEPS	1,017,400	1,017,400
JUVENILE CORRECTIONS, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	10,720	10,720
BUILDING RENEWAL	776,275	758,929
OPERATING LUMP SUM APPROPRIATION	531,300	199,804
LAND DEPARTMENT, STATE		
NATURAL RESOURCE CONSERVATION DISTRICTS	260,600	142,120
LEGISLATIVE COUNCIL		
TELECOMMUNICATION FUND FOR THE DEAF	250,000	—
MESSAGE THERAPY, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	35,197	35,197
AGENCY RELOCATION COSTS	10,100	10,100
OPERATING LUMP SUM APPROPRIATION	466,100	424,803
MEDICAL EXAMINERS BOARD		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	92,410	92,410
AGENCY RELOCATION COSTS	105,900	105,900
MEDICAL BOARD LICENSURE COMPACT	50,000	—
OPERATING LUMP SUM APPROPRIATION	6,841,900	6,334,786
PERFORMANCE BASED INCENTIVE PROGRAM	220,000	155,430
MINE INSPECTOR, STATE		
ADMIN ADJUSTMENT AGGREGATE MINED LAND RECLAMATION	2,460	2,460
AGGREGATE MINED LAND RECLAMATION	112,900	17,365
NATUROPATHIC PHYSICIANS MEDICAL BOARD		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	18,984	18,984
AGENCY RELOCATION COSTS	3,900	3,900
OPERATING LUMP SUM APPROPRIATION	183,000	179,453
NAVIGABLE STREAM ADJUDICATION COMMISSION, ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	3,805	3,805
OPERATING LUMP SUM APPROPRIATION	200,000	32,873
NURSING CARE INSTITUTION ADMINISTRATORS AND ASSISTED LIVING FACILITY MANAGERS, BOARD OF EXAMINERS OF		
AGENCY RELOCATION COSTS	7,900	7,900
OPERATING LUMP SUM APPROPRIATION	426,500	394,164
SWEEPS	27,500	27,500
NURSING, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13	13
AGENCY RELOCATION COSTS	108,500	108,500
CERTIFIED NURSING PROGRAM	536,700	524,995
OPERATING LUMP SUM APPROPRIATION	4,323,800	4,297,594

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
OCCUPATIONAL THERAPY EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	8,375	8,375
AGENCY RELOCATION COSTS	4,000	4,000
OPERATING LUMP SUM APPROPRIATION	183,700	165,827
SWEEPS	45,900	45,900
OPTICIANS, STATE BOARD OF DISPENSING		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	17,154	17,154
AGENCY RELOCATION COSTS	2,100	2,100
OPERATING LUMP SUM APPROPRIATION	141,700	138,330
RETIREMENT LEAVE PAYOUT	14,000	14,000
SWEEPS	27,500	27,500
OPTOMETRY, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,066	2,066
AGENCY RELOCATION COSTS	4,100	4,100
OPERATING LUMP SUM APPROPRIATION	222,200	205,422
SWEEPS	45,900	45,900
OSTEOPATHIC EXAMINERS, ARIZONA BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	6,531	6,531
AGENCY RELOCATION COSTS	16,400	16,400
OPERATING LUMP SUM APPROPRIATION	913,100	845,976
PARENTS COMMISSION ON DRUG EDUCATION AND PREVENTION, ARIZONA		
PARENTS COMM ON MIDDLE AND HIGH SCHOOL PREVENTION EDUCATION	300,000	—
PHARMACY, ARIZONA STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	25,613	25,613
AZ POISON AND DRUG INFORMATION CENTER	200,000	200,000
CONTROLLED SUB PRESCRIP MONITORING PROGRAM	500,000	500,000
ONE TIME FUNDING LEAVE PAYOUT	51,185	—
OPERATING LUMP SUM APPROPRIATION	2,135,600	2,060,364
PRESCRIBER REPORT CARD	125,000	—
PHYSICAL THERAPY EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,380	1,380
AGENCY RELOCATION COSTS	8,400	8,400
OPERATING LUMP SUM APPROPRIATION	448,000	412,236
SWEEPS	45,900	45,900
PODIATRY EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	928	928
AGENCY RELOCATION COSTS	3,800	3,800
OPERATING LUMP SUM APPROPRIATION	149,700	139,729
SWEEPS	27,500	27,500
POSTSECONDARY EDUCATION, COMMISSION FOR		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	42	42
ARIZONA COLLEGE AND CAREER GUIDE	21,300	6
AZ MINORITY ED POLICY ANALYSIS CENTER	100,000	45,175
LEVERAGING EDUCATIONAL ASSISTANCE PRTSHP	1,098,700	1,098,700
OPERATING LUMP SUM APPROPRIATION	190,600	132,665
TWELVE PLUS PARTNERSHIP	130,500	63,987
PRIVATE POSTSECONDARY EDUCATION, STATE BOARD FOR		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	14,168	14,168
AGENCY RELOCATION COSTS	10,200	10,200

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
ANNUAL LEAVE PAYOUT	20,800	18,654
OPERATING LUMP SUM APPROPRIATION	400,200	363,791
SWEEPS	80,200	80,200
PSYCHOLOGIST EXAMINERS, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13,984	13,984
AGENCY RELOCATION COSTS	7,900	7,900
OPERATING LUMP SUM APPROPRIATION	480,600	431,888
SWEEPS	91,700	91,700
PUBLIC SAFETY, DEPARTMENT OF		
ACTIC	700,000	700,000
ADMIN ADJUSTMENT ACTIC	88,148	88,148
ADMIN ADJUSTMENT LAW ENFORCEMENT OFFICER VIRTUAL TRAINING	1,786,967	1,786,967
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	70,573	70,573
ADMIN ADJUSTMENT PUBLIC SAFETY EQUIPMENT SURCHARGE	21,825	21,825
BORDER STRIKE TASK FORCE ONGOING	4,600	—
CAMERA IT INFRASTRUCTURE	500,000	—
GI ITEM	52,200	—
MICROWAVE COMMUNICATION SYSTEM UPGRADE	1,265,526	26,913
OPERATING LUMP SUM APPROPRIATION	166,160,000	164,555,074
PUBLIC SAFETY EQUIPMENT	1,859,175	1,700,582
PUBLIC SAFETY EQUIPMENT SURCHARGE	2,890,000	2,677,479
SWEEPS	4,500,000	4,500,000
TROOPER VEHICLE IN-CAR CAMERAS	500,000	20,884
RADIATION REGULATORY AGENCY		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13,221	13,221
OPERATING LUMP SUM APPROPRIATION	127,313	127,313
RESIDENTIAL UTILITY CONSUMER OFFICE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,064	2,064
OPERATING LUMP SUM APPROPRIATION	1,199,300	1,003,990
PROFESSIONAL WITNESSES	233,731	144,368
RESPIRATORY CARE EXAMINERS, BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	1,479	1,479
AGENCY RELOCATION COSTS	7,500	7,500
OPERATING LUMP SUM APPROPRIATION	303,800	292,267
SWEEPS	44,100	44,100
TEMPORARY CASELOAD INCREASE	19,500	17,348
REVENUE, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	2,323	2,323
OPERATING LUMP SUM APPROPRIATION	684,600	575,507
SUPREME COURT		
ADMIN ADJUSTMENT CENTRALIZED SERVICE PAYMENTS	3,428	3,428
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	13,660	13,660
ADMIN ADJUSTMENT STATE AID	12,313	12,313
ADULT INTENSIVE PROBATION	1,535,200	1,034,938
ADULT STANDARD PROBATION	3,774,100	3,765,360
AUTOMATION	13,154,200	9,817,129
CENTRALIZED SERVICE PAYMENTS	449,900	52,182
COMMUNITY PUNISHMENT	2,310,300	1,266,573
COURT APPOINTED SPECIAL ADVOCATE	3,267,800	3,103,218

(Continued)

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
NON-MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
COURTHOUSE SECURITY	750,000	313,815
DRUG TREATMENT ALTERNATIVE TO PRISON	250,000	250,000
INTERSTATE COMPACT	92,800	92,800
JUVENILE CRIME REDUCTION	3,308,000	1,798,682
JUVENILE STANDARD PROBATION	150,000	—
OPERATING LUMP SUM	333,000	301,780
OPERATING LUMP SUM APPROPRIATION	3,127,500	2,232,494
STATE AID	5,671,400	4,143,128
TECHNICAL REGISTRATION, STATE BOARD OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	465,416	465,416
OPERATING LUMP SUM APPROPRIATION	2,233,700	1,924,952
TREASURER, STATE		
LAW ENFORCEMENT AND BOATING SAFETY DIST	2,183,800	—
VETERINARY MEDICAL EXAMINING BOARD, ARIZONA STATE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	9,177	9,177
AGENCY RELOCATION COSTS	12,500	12,500
OPERATING LUMP SUM APPROPRIATION	590,000	391,195
WATER RESOURCES, DEPARTMENT OF		
ASSURED - ADEQUATE WATER SUPPLY ADMIN	266,800	222,011
LOWER COLORADO RIVER LITIGATION EXPENSES	500,000	20,673
OPERATING LUMP SUM APPROPRIATION	1,352,800	538,377
TOTAL NON-MAJOR SPECIAL REVENUE FUNDS BUDGETARY EXPENDITURES	<u>\$ 1,269,134,711</u>	<u>\$ 1,095,763,911</u>

STATE OF ARIZONA
BUDGETARY COMPARISON SCHEDULE, EXPENDITURES
 LAND ENDOWMENTS FUND
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
CORRECTIONS, STATE DEPARTMENT OF		
ADMIN ADJUSTMENT INMATE HEALTH CARE CONTRACTED SERVICES	\$ 375,000	\$ 375,000
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	26,764	26,764
INMATE HEALTH CARE CONTRACTED SERVICES	1,500,000	1,125,000
OPERATING LUMP SUM APPROPRIATION	1,161,500	1,148,849
PRIVATE PRISON PER DIEM	2,062,500	1,341,669
CRIMINAL JUSTICE COMMISSION, ARIZONA		
PRE-TRIAL INTERVENTION	2,000,000	2,000,000
DEAF AND BLIND, ARIZONA SCHOOLS FOR THE		
ADMIN ADJUSTMENT PHOENIX DAY SCHOOL FOR THE DEAF	1,919	1,919
ADMIN ADJUSTMENT PRESCHOOL-OUTREACH PROGRAMS	93,955	93,955
ADMIN ADJUSTMENT TUCSON CAMPUS	116,708	116,708
PHOENIX DAY SCHOOL FOR THE DEAF	5,690,328	5,420,206
PRESCHOOL-OUTREACH PROGRAMS	2,164,050	1,881,330
TUCSON CAMPUS	3,863,122	3,863,122
VOUCHER FUND ADJUSTMENT	161,200	—
EDUCATION, DEPARTMENT OF		
BASIC STATE AID ENTITLEMENT	235,343,500	235,339,077
HEALTH SERVICES, DEPARTMENT OF		
ADMIN ADJUSTMENT ARIZONA STATE HOSPITAL - OPERATING	141,333	141,333
ARIZONA STATE HOSPITAL - OPERATING	970,000	925,900
JUVENILE CORRECTIONS, DEPARTMENT OF		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	34,086	34,086
OPERATING LUMP SUM APPROPRIATION	3,272,600	3,099,871
LAND DEPARTMENT, STATE		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	138,787	138,787
LEGAL SERVICES	225,000	187,641
OPERATING LUMP SUM APPROPRIATION	4,039,400	2,273,542
PROFESSIONAL SERVICE CONTRACTS	250,000	180,662
REASSESSMENT OF FEDERAL PERMITS	750,000	78,873
RIGHT OF WAY DIGITIZATION	450,000	450,000
SURVEY ASSETS	500,000	367,105
WORKFLOW DIGITIZATION	500,000	402,239
PIONEERS' HOME, ARIZONA		
ADMIN ADJUSTMENT OPERATING LUMP SUM APPROPRIATION	53,275	53,275
ADMIN ADJUSTMENT PRESCRIPTION DRUGS	11,501	11,501
OPERATING LUMP SUM APPROPRIATION	6,405,600	6,181,948
PRESCRIPTION DRUGS	200,000	127,554
SUPREME COURT		
ADJUSTMENTS TO RISK MANAGEMENT PREMIUM	137,000	137,000
TOTAL LAND ENDOWMENTS FUNDS BUDGETARY EXPENDITURES	\$ 272,639,128	\$ 267,524,916

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.

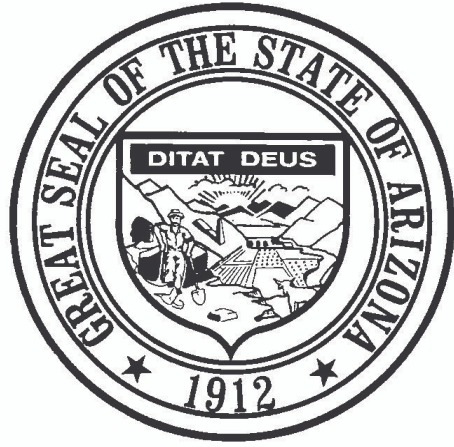
The School Facilities Debt Instrument Fund administers the payment of principal and interest on revenue bonds and certificates of participation issued by the State of Arizona's School Facilities Board and the retirement of previous issuances.

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-MAJOR DEBT SERVICE FUNDS
JUNE 30, 2018
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	DEPARTMENT OF ADMINISTRATION DEBT INSTRUMENT	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
ASSETS					
Cash and pooled investments with State Treasurer	\$ —	\$ —	\$ 2,305	\$ 1,602	\$ 3,907
Due from other funds	3,751	—	—	—	3,751
Restricted assets:					
Cash and pooled investments with State Treasurer	—	591	3,378	14,327	18,296
Cash held by trustee	—	—	7,237	31,531	38,768
Total Assets	<u>\$ 3,751</u>	<u>\$ 591</u>	<u>\$ 12,920</u>	<u>\$ 47,460</u>	<u>\$ 64,722</u>
FUND BALANCES					
Fund Balances:					
Restricted	<u>\$ 3,751</u>	<u>\$ 591</u>	<u>\$ 12,920</u>	<u>\$ 47,460</u>	<u>\$ 64,722</u>
Total Fund Balances	<u>\$ 3,751</u>	<u>\$ 591</u>	<u>\$ 12,920</u>	<u>\$ 47,460</u>	<u>\$ 64,722</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, 2018
(Expressed in Thousands)

	LOTTERY	DEPARTMENT OF TRANSPORTATION	DEPARTMENT OF ADMINISTRATION DEBT INSTRUMENT	SCHOOL FACILITIES DEBT INSTRUMENT	TOTAL
REVENUES					
Sales taxes	\$ —	\$ —	\$ —	\$ 64,133	\$ 64,133
Earnings on investments	—	1,562	64	469	2,095
Other	—	—	102	—	102
Total Revenues	—	1,562	166	64,602	66,330
EXPENDITURES					
Current:					
General government	—	—	5,117	—	5,117
Debt service:					
Principal	21,025	159,045	79,490	103,145	362,705
Interest and other fiscal charges	16,476	108,362	54,388	4,360	183,586
Total Expenditures	37,501	267,407	138,995	107,505	551,408
(Deficiency) of Revenues Over Expenditures	(37,501)	(265,845)	(138,829)	(42,903)	(485,078)
OTHER FINANCING SOURCES (USES)					
Transfers in	37,501	252,974	140,950	29,887	461,312
Refunding certificates of participation issued	—	—	31,570	—	31,570
Payment to refunded certificates of participation escrow agent	—	—	(31,345)	—	(31,345)
Total Other Financing Sources (Uses)	37,501	252,974	141,175	29,887	461,537
Net Change in Fund Balances	—	(12,871)	2,346	(13,016)	(23,541)
Fund Balances - Beginning	3,751	13,462	10,574	60,476	88,263
Fund Balances - Ending	\$ 3,751	\$ 591	\$ 12,920	\$ 47,460	\$ 64,722



NON-MAJOR GOVERNMENTAL FUND CAPITAL PROJECTS FUND

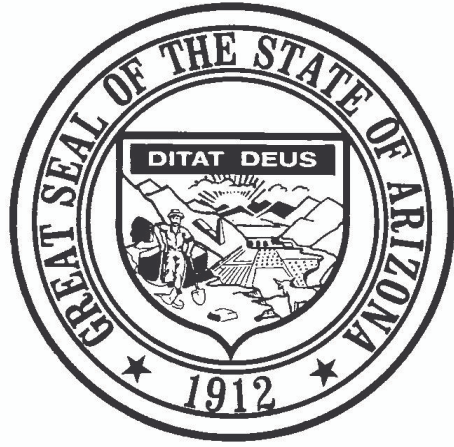
The Department of Transportation Financed Fund administers the proceeds from the Highway Revenue Bonds, Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes issued by the Arizona Department of Transportation Board. These monies are expended for the construction of projects in the Five-Year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

STATE OF ARIZONA
COMBINING BALANCE SHEET
 NON-MAJOR CAPITAL PROJECTS FUND
 JUNE 30, 2018
 (Expressed in Thousands)

	<u>DEPARTMENT OF TRANSPORTATION FINANCED</u>
ASSETS	
Restricted assets:	
Cash and pooled investments with State Treasurer	\$ 27,492
Total Assets	<u>\$ 27,492</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable and other current liabilities	\$ 3,078
Total Liabilities	<u>3,078</u>
Fund Balances:	
Restricted	<u>24,414</u>
Total Fund Balances	<u>24,414</u>
Total Liabilities and Fund Balances	<u>\$ 27,492</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, 2018
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED
REVENUES	
Earnings on investments	\$ 526
Total Revenues	<u>526</u>
EXPENDITURES	
Current:	
Transportation	28,318
Debt service:	
Interest and other fiscal charges	425
Capital outlay	<u>25,246</u>
Total Expenditures	<u>53,989</u>
(Deficiency) of Revenues Over Expenditures	<u>(53,463)</u>
OTHER FINANCING SOURCES	
Grant anticipation notes issued	62,595
Premium on debt issued	<u>12,839</u>
Total Other Financing Sources	<u>75,434</u>
Net Change in Fund Balances	21,971
Fund Balances - Beginning	<u>2,443</u>
Fund Balances - Ending	<u>\$ 24,414</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 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, 2018
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND
ASSETS					
Current Assets:					
Cash	\$ 680	\$ —	\$ 275	\$ 260	\$ 10,917
Cash with U.S. Treasury	—	—	—	—	—
Cash and pooled investments with State Treasurer	137	57,221	13,133	6,008	1,045
Collateral investment pool	—	—	—	—	1,877
Short-term investments	96,285	—	—	—	—
Receivables, net of allowances:					
Taxes	—	—	—	—	—
Interest	—	—	—	—	1,250
Other	—	7,849	5,607	7	152
Inventories, at cost	—	7,474	4,887	—	—
Other current assets	—	—	78	—	—
Total Current Assets	<u>97,102</u>	<u>72,544</u>	<u>23,980</u>	<u>6,275</u>	<u>15,241</u>
Noncurrent Assets:					
Investments	145,204	—	—	—	308,300
Net OPEB asset	2	—	26	10	—
Other noncurrent assets	—	12,001	—	—	—
Capital assets:					
Land and other non-depreciable	—	1,190	1,060	70	2,997
Buildings, equipment, and other depreciable net of accumulated depreciation	—	4,663	5,314	4,473	2,483
Total Noncurrent Assets	<u>145,206</u>	<u>17,854</u>	<u>6,400</u>	<u>4,553</u>	<u>313,780</u>
Total Assets	<u>242,308</u>	<u>90,398</u>	<u>30,380</u>	<u>10,828</u>	<u>329,021</u>
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	56	724	1,120	464	—
Related to OPEB	3	31	109	22	—
Total Deferred Outflows of Resources	<u>59</u>	<u>755</u>	<u>1,229</u>	<u>486</u>	<u>—</u>

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ —	\$ —	\$ —	\$ 12,132
856,110	—	—	856,110
—	30,520	17,773	125,837
—	—	—	1,877
—	—	—	96,285
94,549	—	—	94,549
—	—	—	1,250
8,935	—	3,715	26,265
—	—	—	12,361
—	—	—	78
<u>959,594</u>	<u>30,520</u>	<u>21,488</u>	<u>1,226,744</u>
—	—	—	453,504
—	—	62	100
—	—	—	12,001
—	—	979	6,296
—	—	6,162	23,095
—	—	7,203	494,996
<u>959,594</u>	<u>30,520</u>	<u>28,691</u>	<u>1,721,740</u>
—	—	2,135	4,499
—	—	190	355
—	—	2,325	4,854

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR ENTERPRISE FUNDS
JUNE 30, 2018
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	\$ —	\$ 12,475	\$ 2,412	\$ 345	\$ 1,281
Payable for securities purchased	—	—	—	—	339
Accrued liabilities	17	—	615	106	—
Obligations under securities loan agreements	—	—	—	—	1,877
Due to U.S. Government	—	—	—	—	—
Due to others	—	44,184	—	—	—
Due to other funds	—	20,750	—	—	—
Unearned revenue	—	—	66	—	—
Current portion of accrued insurance losses	22,660	—	—	—	18,966
Current portion of other long-term liabilities	29	284	618	183	—
Total Current Liabilities	22,706	77,693	3,711	634	22,463
Noncurrent Liabilities:					
Accrued insurance losses	217,356	—	—	—	236,972
Net OPEB liability	58	1,012	2,470	344	—
Net pension liability	500	5,594	7,227	3,021	—
Total Noncurrent Liabilities	217,914	6,606	9,697	3,365	236,972
Total Liabilities	240,620	84,299	13,408	3,999	259,435
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	55	732	510	325	—
Related to OPEB	16	269	645	119	—
Total Deferred Inflows of Resources	71	1,001	1,155	444	—
NET POSITION					
Net investment in capital assets	—	5,853	6,374	4,543	5,480
Restricted for:					
Unemployment Compensation	—	—	—	—	—
Other	102,193	—	—	—	—
Unrestricted (deficit)	(100,517)	—	10,672	2,328	64,106
Total Net Position	\$ 1,676	\$ 5,853	\$ 17,046	\$ 6,871	\$ 69,586

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 3	\$ —	\$ 1,392	\$ 17,908
—	—	—	339
45,144	—	694	46,576
—	—	—	1,877
5	—	—	5
12,653	—	9	56,846
758	—	—	21,508
—	—	—	66
—	—	—	41,626
—	—	477	1,591
<u>58,563</u>	<u>—</u>	<u>2,572</u>	<u>188,342</u>
—	—	—	454,328
—	—	3,840	7,724
—	—	17,620	33,962
—	—	21,460	496,014
<u>58,563</u>	<u>—</u>	<u>24,032</u>	<u>684,356</u>
—	—	1,694	3,316
—	—	1,026	2,075
—	—	2,720	5,391
—	—	7,144	29,394
901,031	—	—	901,031
—	—	—	102,193
—	30,520	(2,880)	4,229
<u>\$ 901,031</u>	<u>\$ 30,520</u>	<u>\$ 4,264</u>	<u>\$ 1,036,847</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, 2018
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND
OPERATING REVENUES					
Sales and charges for services	\$ —	\$ 981,220	\$ 44,584	\$ 13,467	\$ —
Assessments	6,893	—	—	—	—
Intergovernmental	—	—	—	—	—
Fines, forfeitures, and penalties	—	—	—	—	—
Settlement income	539	—	—	—	7,067
Other	—	396	—	236	—
Total Operating Revenues	7,432	981,616	44,584	13,703	7,067
OPERATING EXPENSES					
Cost of sales and benefits	5,822	741,444	31,392	764	4,630
Personal services	955	5,135	5,873	5,032	—
Contractual services	76	15,493	—	368	—
Depreciation and amortization	—	971	987	1,158	293
Insurance	—	44	—	230	—
Other	178	3,605	—	5,626	—
Total Operating Expenses	7,031	766,692	38,252	13,178	4,923
Operating Income	401	214,924	6,332	525	2,144
NON-OPERATING REVENUES (EXPENSES)					
Gain on sale of capital assets	—	—	49	—	—
Investment income	2,245	434	84	29	18,293
Other non-operating revenue	—	—	—	—	2,226
Distributions	—	(15,029)	—	—	—
Other non-operating expense	(288)	—	—	—	(3,784)
Total Non-Operating Revenues (Expenses)	1,957	(14,595)	133	29	16,735
Income (Loss) Before Transfers	2,358	200,329	6,465	554	18,879
Transfers out	—	(196,885)	(2,450)	—	—
Change in Net Position	2,358	3,444	4,015	554	18,879
Total Net Position - Beginning, as restated	(682)	2,409	13,031	6,317	50,707
Total Net Position - Ending	\$ 1,676	\$ 5,853	\$ 17,046	\$ 6,871	\$ 69,586

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ —	\$ —	\$ 37,741	\$ 1,077,012
504,764	—	—	511,657
4,185	—	—	4,185
1,880	—	—	1,880
—	—	—	7,606
106	—	41	779
510,935	—	37,782	1,603,119
246,318	—	34	1,030,404
—	—	17,682	34,677
—	—	8,633	24,570
—	—	381	3,790
—	—	206	480
30	—	4,349	13,788
246,348	—	31,285	1,107,709
264,587	—	6,497	495,410
—	—	—	49
14,201	569	198	36,053
590	—	—	2,816
—	—	—	(15,029)
—	(30,000)	—	(34,072)
14,791	(29,431)	198	(10,183)
279,378	(29,431)	6,695	485,227
(4,691)	—	—	(204,026)
274,687	(29,431)	6,695	281,201
626,344	59,951	(2,431)	755,646
\$ 901,031	\$ 30,520	\$ 4,264	\$ 1,036,847

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ —	\$ 406,674	\$ 43,936	\$ 13,467	\$ —
Receipts from assessments	6,893	—	—	—	13
Receipts from grants and contracts	—	—	—	—	—
Receipts from settlement income	539	—	—	—	7,067
Payments to suppliers, prize winners, claimants, or insurance companies	(27,974)	(177,242)	(15,544)	(6,998)	(15,321)
Payments to employees	(412)	(6,094)	(23,269)	(5,119)	—
Other receipts	—	—	—	250	2,226
Other payments	—	(3,497)	—	—	—
Net Cash Provided (Used) by Operating Activities	(20,954)	219,841	5,123	1,600	(6,015)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Distributions	—	(15,029)	—	—	—
Transfers to other funds	—	(223,538)	(2,450)	—	—
Net Cash (Used) by Non-capital Financing Activities	—	(238,567)	(2,450)	—	—
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of capital assets	—	—	83	—	—
Acquisition and construction of capital assets	—	(63)	(1,962)	(794)	—
Net Cash (Used) by Capital and Related Financing Activities	—	(63)	(1,879)	(794)	—
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	380,834	—	—	—	166,730
Interest and dividends from investments	1,957	406	84	29	9,297
Change in cash collateral received from securities lending transactions	—	—	—	—	(3,678)
Purchase of investments	(361,648)	—	—	—	(173,995)
Net Cash Provided (Used) by Investing Activities	21,143	406	84	29	(1,646)
Net Increase (Decrease) in Cash and Cash Equivalents	189	(18,383)	878	835	(7,661)
Cash and Cash Equivalents - Beginning, as restated	628	75,604	12,530	5,433	21,500
Cash and Cash Equivalents - Ending	\$ 817	\$ 57,221	\$ 13,408	\$ 6,268	\$ 13,839

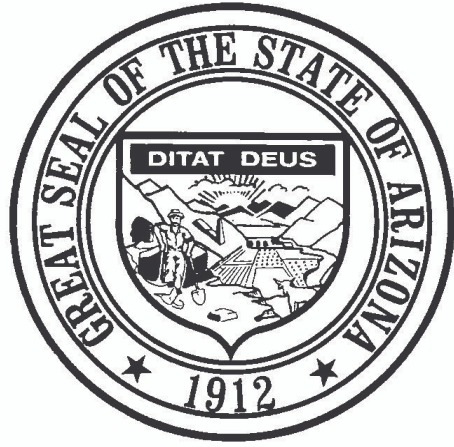
UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ —	\$ —	\$ 37,171	\$ 501,248
514,068	—	—	520,974
4,185	—	—	4,185
—	—	—	7,606
(245,454)	—	(12,530)	(501,063)
—	—	(19,370)	(54,264)
1,956	—	41	4,473
—	—	—	(3,497)
<u>274,755</u>	<u>—</u>	<u>5,312</u>	<u>479,662</u>
—	(30,000)	—	(45,029)
<u>(4,315)</u>	<u>—</u>	<u>—</u>	<u>(230,303)</u>
<u>(4,315)</u>	<u>(30,000)</u>	<u>—</u>	<u>(275,332)</u>
—	—	—	83
—	—	(67)	(2,886)
—	—	(67)	(2,803)
—	—	—	547,564
14,201	569	198	26,741
—	—	—	(3,678)
—	—	—	(535,643)
<u>14,201</u>	<u>569</u>	<u>198</u>	<u>34,984</u>
<u>284,641</u>	<u>(29,431)</u>	<u>5,443</u>	<u>236,511</u>
<u>571,469</u>	<u>59,951</u>	<u>12,330</u>	<u>759,445</u>
<u>\$ 856,110</u>	<u>\$ 30,520</u>	<u>\$ 17,773</u>	<u>\$ 995,956</u>

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	INSURANCE DEPARTMENT GUARANTY FUNDS	LOTTERY	ARIZONA CORRECTIONAL INDUSTRIES	COLISEUM & EXPOSITION CENTER	INDUSTRIAL COMMISSION SPECIAL FUND
RECONCILIATION OF OPERATING INCOME TO					
NET CASH PROVIDED (USED) BY OPERATING					
ACTIVITIES					
Operating income	\$ 401	\$ 214,924	\$ 6,332	\$ 525	\$ 2,144
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation and amortization	—	971	987	1,158	293
Provision for uncollectible accounts	—	—	100	—	—
Miscellaneous income (expense)	—	—	—	14	(283)
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:					
(Increase) decrease in receivables, net of allowances	—	(2,477)	(858)	—	13
Decrease in due from other funds	—	—	—	—	—
(Increase) in inventories, at cost	—	(3,291)	(493)	—	—
(Increase) decrease in other assets	—	(2,747)	71	—	—
(Increase) in net OPEB asset	(2)	—	(26)	(10)	—
(Increase) decrease in deferred pension outflows of resources	(56)	296	250	292	—
Decrease in deferred OPEB outflows of resources	1	2	3	2	—
Increase (decrease) in accounts payable	—	3,848	(276)	(10)	(227)
Increase (decrease) in accrued liabilities	17	9,572	13	2	—
(Decrease) in due to U.S. Government	—	—	—	—	—
Increase in due to others	—	—	—	—	—
(Decrease) in accrued insurance losses	(21,898)	—	—	—	(7,955)
(Decrease) in net OPEB liability	(17)	(291)	(719)	(103)	—
Increase (decrease) in net pension liability	500	(157)	(364)	(314)	—
Increase in other liabilities	29	—	32	18	—
Increase (decrease) in deferred pension inflows of resources	55	(743)	(574)	(93)	—
Increase (decrease) in deferred OPEB inflows of resources	16	(66)	645	119	—
Net Cash Provided (Used) by Operating Activities	<u>\$ (20,954)</u>	<u>\$ 219,841</u>	<u>\$ 5,123</u>	<u>\$ 1,600</u>	<u>\$ (6,015)</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL					
AND NON-CAPITAL FINANCING ACTIVITIES					
Increase (decrease) in fair value of investments	<u>\$ (1,291)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,148</u>
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ (1,291)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,148</u>

UNEMPLOYMENT COMPENSATION	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	OTHER	TOTAL
\$ 264,587	\$ —	\$ 6,497	\$ 495,410
—	—	381	3,790
—	—	—	100
—	—	—	(269)
(94)	—	(747)	(4,163)
—	—	177	177
—	—	—	(3,784)
—	—	—	(2,676)
—	—	(62)	(100)
—	—	1,510	2,292
—	—	12	20
—	—	683	4,018
9,744	—	(7)	19,341
(29)	—	—	(29)
547	—	9	556
—	—	—	(29,853)
—	—	(1,127)	(2,257)
—	—	(1,797)	(2,132)
—	—	27	106
—	—	(1,270)	(2,625)
—	—	1,026	1,740
<u>\$ 274,755</u>	<u>\$ —</u>	<u>\$ 5,312</u>	<u>\$ 479,662</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,857</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,857</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, 2018
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
ASSETS				
Current Assets:				
Cash and pooled investments with State Treasurer	\$ 69,840	\$ 4,741	\$ 147,666	\$ 776
Receivables, net of allowances:				
Other	1	1,818	32,640	292
Due from other funds	—	—	—	—
Inventories, at cost	—	2,801	—	—
Other current assets	4,109	—	11,204	—
Total Current Assets	<u>73,950</u>	<u>9,360</u>	<u>191,510</u>	<u>1,068</u>
Noncurrent Assets:				
Net OPEB asset	54	—	11	3
Capital assets:				
Buildings, equipment and other depreciable, net of accumulated depreciation	70	68,436	20	30
Total Noncurrent Assets	<u>124</u>	<u>68,436</u>	<u>31</u>	<u>33</u>
Total Assets	<u>74,074</u>	<u>77,796</u>	<u>191,541</u>	<u>1,101</u>
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	4,350	1,537	355	112
Related to OPEB	115	100	26	8
Total Deferred Outflows of Resources	<u>4,465</u>	<u>1,637</u>	<u>381</u>	<u>120</u>
LIABILITIES				
Current Liabilities:				
Accounts payable and other current liabilities	2,148	164	113,773	46
Accrued liabilities	445	501	104	47
Due to U.S. Government	3,839	—	1,842	—
Due to other funds	—	712	—	—
Current portion of accrued insurance losses	65,582	—	—	—
Current portion of other long-term liabilities	653	689	156	—
Total Current Liabilities	<u>72,667</u>	<u>2,066</u>	<u>115,875</u>	<u>93</u>
Noncurrent Liabilities:				
Accrued insurance losses	360,359	—	—	—
Net OPEB liability	1,947	3,265	528	134
Net pension liability	15,502	13,271	3,063	920
Other long-term liabilities	—	—	—	—
Total Noncurrent Liabilities	<u>377,808</u>	<u>16,536</u>	<u>3,591</u>	<u>1,054</u>
Total Liabilities	<u>450,475</u>	<u>18,602</u>	<u>119,466</u>	<u>1,147</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	1,076	1,438	276	83
Related to OPEB	544	786	143	37
Total Deferred Inflows of Resources	<u>1,620</u>	<u>2,224</u>	<u>419</u>	<u>120</u>
NET POSITION				
Net investment in capital assets	70	68,436	20	30
Unrestricted (deficit)	(373,626)	(9,829)	72,017	(76)
Total Net Position	<u>\$ (373,556)</u>	<u>\$ 58,607</u>	<u>\$ 72,037</u>	<u>\$ (46)</u>

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 10,914	\$ 2,620	\$ 2,290	\$ 26,756	\$ 265,603
1,109	—	993	166	37,019
4,545	—	3	6	4,554
—	—	20	117	2,938
1,079	—	—	—	16,392
<u>17,647</u>	<u>2,620</u>	<u>3,306</u>	<u>27,045</u>	<u>326,506</u>
22	—	2	45	137
2,639	—	10,868	448	82,511
<u>2,661</u>	<u>—</u>	<u>10,870</u>	<u>493</u>	<u>82,648</u>
<u>20,308</u>	<u>2,620</u>	<u>14,176</u>	<u>27,538</u>	<u>409,154</u>
652	—	74	2,162	9,242
41	1	6	104	401
<u>693</u>	<u>1</u>	<u>80</u>	<u>2,266</u>	<u>9,643</u>
1,299	—	424	787	118,641
167	—	21	430	1,715
2,815	—	—	—	8,496
—	—	—	63	775
—	—	—	—	65,582
329	10,009	95	644	12,575
<u>4,610</u>	<u>10,009</u>	<u>540</u>	<u>1,924</u>	<u>207,784</u>
—	—	—	—	360,359
842	20	85	1,722	8,543
6,109	—	612	12,875	52,352
—	151,836	—	—	151,836
<u>6,951</u>	<u>151,856</u>	<u>697</u>	<u>14,597</u>	<u>573,090</u>
<u>11,561</u>	<u>161,865</u>	<u>1,237</u>	<u>16,521</u>	<u>780,874</u>
550	—	55	1,084	4,562
233	5	23	479	2,250
<u>783</u>	<u>5</u>	<u>78</u>	<u>1,563</u>	<u>6,812</u>
2,639	—	10,868	448	82,511
6,018	(159,249)	2,073	11,272	(451,400)
<u>\$ 8,657</u>	<u>\$ (159,249)</u>	<u>\$ 12,941</u>	<u>\$ 11,720</u>	<u>\$ (368,889)</u>

STATE OF ARIZONA
**COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION**
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

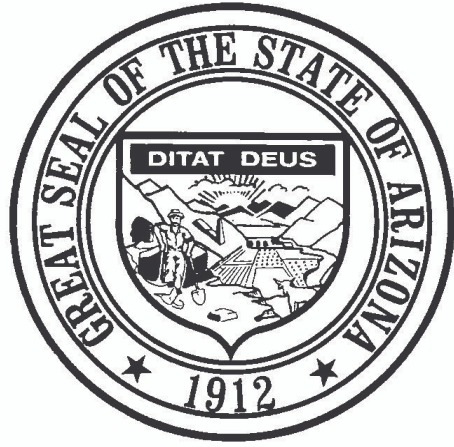
	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
OPERATING REVENUES				
Sales and charges for services	\$ 98,362	\$ 25,376	\$ 898,723	\$ 2,078
Other	1	179	5	—
Total Operating Revenues	<u>98,363</u>	<u>25,555</u>	<u>898,728</u>	<u>2,078</u>
OPERATING EXPENSES				
Cost of sales and benefits	—	11,085	901,760	83
Personal services	11,298	11,847	3,480	779
Contractual services	27,704	647	1,933	322
Depreciation and amortization	8	15,609	2	20
Insurance	31,022	—	1,321	13
Other	1,282	1,012	1,281	336
Total Operating Expenses	<u>71,314</u>	<u>40,200</u>	<u>909,777</u>	<u>1,553</u>
Operating Income (Loss)	<u>27,049</u>	<u>(14,645)</u>	<u>(11,049)</u>	<u>525</u>
NON-OPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of capital assets	—	11	—	—
Investment income	—	60	—	—
Gain on extinguishment of debt	—	—	8,916	—
Other non-operating revenue	2	—	—	6
Other non-operating expense	(18,322)	—	(1,842)	—
Total Non-Operating Revenues (Expenses)	<u>(18,320)</u>	<u>71</u>	<u>7,074</u>	<u>6</u>
Income (Loss) Before Contributions and Transfers	8,729	(14,574)	(3,975)	531
Capital grants and contributions	—	15,339	—	—
Transfers in	102	—	—	—
Transfers out	(3,614)	—	(172)	(27)
Change in Net Position	<u>5,217</u>	<u>765</u>	<u>(4,147)</u>	<u>504</u>
Total Net Position - Beginning, as restated	<u>(378,773)</u>	<u>57,842</u>	<u>76,184</u>	<u>(550)</u>
Total Net Position - Ending	<u>\$ (373,556)</u>	<u>\$ 58,607</u>	<u>\$ 72,037</u>	<u>\$ (46)</u>

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 29,938	\$ 14,951	\$ 7,042	\$ 26,204	\$ 1,102,674
2	—	—	3,255	3,442
29,940	14,951	7,042	29,459	1,106,116
7,324	17,462	3,875	549	942,138
2,050	78	524	11,371	41,427
8,934	3	81	2,846	42,470
1,585	—	2,508	247	19,979
139	—	240	1,498	34,233
361	—	—	6,302	10,574
20,393	17,543	7,228	22,813	1,090,821
9,547	(2,592)	(186)	6,646	15,295
—	—	(145)	—	(134)
—	—	—	11	71
—	—	—	—	8,916
1	—	—	—	9
(2,815)	—	—	(288)	(23,267)
(2,814)	—	(145)	(277)	(14,405)
6,733	(2,592)	(331)	6,369	890
(803)	—	1,289	—	15,825
—	—	—	—	102
(7,079)	—	—	(2,693)	(13,585)
(1,149)	(2,592)	958	3,676	3,232
9,806	(156,657)	11,983	8,044	(372,121)
\$ 8,657	\$ (159,249)	\$ 12,941	\$ 11,720	\$ (368,889)

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TELE- COMMUNICATION
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from interfund services / premiums	\$ 98,307	\$ 25,389	\$ 901,125	\$ 1,929
Payments to suppliers or insurance companies	(72,381)	(13,042)	(909,956)	(1,446)
Payments to employees	(12,109)	(12,528)	(3,168)	(883)
Payments to retirees	—	—	—	—
Other receipts	3	179	8,929	6
Other payments	(18,322)	—	(1,842)	—
Net Cash Provided (Used) by Operating Activities	(4,502)	(2)	(4,912)	(394)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfers from other funds	102	—	—	—
Transfers to other funds	(3,614)	—	(172)	(27)
Net Cash (Used) by Non-capital Financing Activities	(3,512)	—	(172)	(27)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	—	1,646	—	99
Acquisition and construction of capital assets	(72)	—	(18)	—
Principal paid on capital debt, installment purchase contracts, and capital leases	—	—	—	—
Net Cash Provided (Used) by Capital and Related Financing Activities	(72)	1,646	(18)	99
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends from investments	—	59	—	—
Net Cash Provided by Investing Activities	—	59	—	—
Net Increase (Decrease) in Cash and Cash Equivalents	(8,086)	1,703	(5,102)	(322)
Cash and Cash Equivalents - Beginning	77,926	3,038	152,768	1,098
Cash and Cash Equivalents - Ending	\$ 69,840	\$ 4,741	\$ 147,666	\$ 776
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 27,049	\$ (14,645)	\$ (11,049)	\$ 525
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	8	15,609	2	20
Miscellaneous income (expense)	(18,320)	—	7,074	6
Net changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in receivables, net of allowances	(1)	13	2,443	(146)
(Increase) decrease in due from other funds	—	—	—	—
(Increase) decrease in inventories, at cost	—	(525)	—	—
(Increase) decrease in other assets	(57)	—	(108)	—
(Increase) in net OPEB asset	(54)	—	(11)	(3)
Decrease in net deferred OPEB outflows of resources	15	7	5	—
(Increase) decrease in deferred pension outflows of resources	(808)	997	211	86
Increase (decrease) in accounts payable	(479)	163	(5,417)	(692)
Increase (decrease) in accrued liabilities	(23)	325	6	20
Increase in due to U.S. Government	3,839	—	1,842	—
Increase (decrease) in due to other funds	—	—	—	—
(Decrease) in accrued insurance losses	(15,676)	—	—	—
(Decrease) in net OPEB liability	(586)	(939)	(153)	(40)
Increase (decrease) in net pension liability	974	(1,093)	309	(111)
Increase (decrease) in other liabilities	33	35	(7)	—
Increase in deferred OPEB inflows of resources	544	786	143	37
(Decrease) in deferred pension inflows of resources	(960)	(735)	(202)	(96)
Net Cash Provided (Used) by Operating Activities	\$ (4,502)	\$ (2)	\$ (4,912)	\$ (394)
SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES				
Contribution of capital assets from other funds	\$ —	\$ 15,339	\$ —	\$ —
Total Noncash Investing, Capital and Non-capital Financing Activities	\$ —	\$ 15,339	\$ —	\$ —

AUTOMATION OPERATIONS	RETIREE ACCUMULATED SICK LEAVE	MOTOR POOL	OTHER	TOTAL
\$ 26,872	\$ 14,951	\$ 6,745	\$ 26,306	\$ 1,101,624
(14,278)	(3)	(4,163)	(11,167)	(1,026,436)
(4,688)	(78)	(468)	(12,212)	(46,134)
—	(15,075)	—	—	(15,075)
3	—	—	3,255	12,375
(2,815)	—	—	(288)	(23,267)
5,094	(205)	2,114	5,894	3,087
—	—	—	—	102
(7,079)	—	—	(2,693)	(13,585)
(7,079)	—	—	(2,693)	(13,483)
286	—	—	—	2,031
—	—	(2,120)	(298)	(2,508)
(2,197)	—	—	(69)	(2,266)
(1,911)	—	(2,120)	(367)	(2,743)
—	—	—	11	70
—	—	—	11	70
(3,896)	(205)	(6)	2,845	(13,069)
14,810	2,825	2,296	23,911	278,672
\$ 10,914	\$ 2,620	\$ 2,290	\$ 26,756	\$ 265,603
\$ 9,547	\$ (2,592)	\$ (186)	\$ 6,646	\$ 15,295
1,585	—	2,508	247	19,979
(2,814)	—	—	(288)	(14,342)
(162)	—	(303)	116	1,960
(2,882)	—	8	31	(2,843)
—	—	10	(87)	(602)
(1,079)	—	6	—	(1,238)
(22)	—	(2)	(45)	(137)
12	—	—	7	46
902	—	49	586	2,023
780	—	17	77	(5,551)
(77)	—	2	(9)	244
2,815	—	—	—	8,496
(36)	—	—	38	2
—	—	—	—	(15,676)
(259)	(5)	(25)	(513)	(2,520)
(2,545)	—	(9)	(317)	(2,792)
47	2,387	69	(1)	2,563
233	5	23	479	2,250
(951)	—	(53)	(1,073)	(4,070)
\$ 5,094	\$ (205)	\$ 2,114	\$ 5,894	\$ 3,087
\$ —	\$ —	\$ 1,289	\$ —	\$ 16,628
\$ —	\$ —	\$ 1,289	\$ —	\$ 16,628



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, 2018
(Expressed in Thousands)

PENSION TRUST FUNDS

	ASRS	PSPRS	EORP	CORP	AOC
ASSETS					
Cash	\$ 17,647	\$ 306,750	\$ 10,183	\$ 44,985	\$ 12,142
Receivables, net of allowances:					
Accrued interest and dividends	46,847	7,896	302	1,588	459
Securities sold	145,130	14	1	3	1
Futures contracts	11,156	—	—	—	—
Contributions	68,039	48,568	220	7,639	4,772
Court fees	—	—	780	—	—
Due from other funds	—	—	—	—	—
Other	15,097	10,418	10,337	145	42
Total receivables	286,269	66,896	11,640	9,375	5,274
Investments, at fair value:					
Short-term investments	832,011	—	—	—	—
Fixed income securities	10,152,553	420,503	16,067	84,577	24,449
Corporate stocks	21,314,516	2,162,713	82,639	434,993	125,744
Multi-asset	1,179,524	801,965	30,644	161,301	46,627
Real assets	—	566,796	21,658	114,001	32,954
Real estate	4,117,891	607,755	23,223	122,239	35,336
Private equity	—	959,433	36,661	192,974	55,783
Private credit	—	1,095,402	41,856	220,322	63,688
Collateral investment pool	104,082	422,374	16,118	84,953	24,558
Other investments	537,369	304,059	11,620	61,157	17,678
Total investments	38,237,946	7,341,000	280,486	1,476,517	426,817
Prepaid benefits	246,289	—	—	—	—
Property and equipment, net of accumulated depreciation	—	2,939	210	382	110
Total Assets	38,788,151	7,717,585	302,519	1,531,259	444,343
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	—	939	37	192	56
LIABILITIES					
Accounts payable and other current liabilities	13,291	1,297	11,459	5,717	1,653
Payable for securities purchased	28,944	32	—	6	2
Obligation under securities loan agreements	104,082	422,374	16,118	84,953	24,558
Futures contracts payable	14,462	—	—	—	—
Due to other funds	135,423	—	—	—	—
Net pension liability	—	5,399	215	1,107	319
Total Liabilities	296,202	429,102	27,792	91,783	26,532
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	—	292	17	87	25
NET POSITION					
Restricted for:					
Pension benefits	38,491,949	7,289,130	274,747	1,439,581	417,842
Other post-employment benefits	—	—	—	—	—
Total Net Positions	\$ 38,491,949	\$ 7,289,130	\$ 274,747	\$ 1,439,581	\$ 417,842

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	\$ 221	\$ 8,656	\$ 807	\$ 3,518	\$ 1,169	\$ 406,845
2,036	217	364	26	124	11	59,870
6,309	673	1	—	—	—	152,132
485	52	—	—	—	—	11,693
1,049	763	141	—	253	128	131,572
—	—	—	—	—	—	780
135,590	—	—	—	—	—	135,590
2,746	5,357	—	1	12	1	44,156
148,215	7,062	506	27	389	140	535,793
36,167	3,858	—	—	—	—	872,036
441,328	47,077	19,401	1,391	6,614	577	11,214,537
926,535	98,835	99,779	7,156	34,015	2,968	25,289,893
51,274	5,469	37,000	2,654	12,613	1,101	2,330,172
—	—	26,150	1,875	8,915	778	773,127
179,003	19,094	28,040	2,011	9,559	834	5,144,985
—	—	44,265	3,175	15,090	1,316	1,308,697
—	—	50,538	3,625	17,228	1,504	1,494,163
4,524	483	19,487	1,419	6,643	579	685,220
23,359	2,492	14,028	1,006	4,782	417	977,967
1,662,190	177,308	338,688	24,312	115,459	10,074	50,090,797
6,612	—	—	—	—	—	252,901
—	—	—	—	—	—	3,641
1,817,784	184,591	347,850	25,146	119,366	11,383	51,289,977
—	—	—	—	—	—	1,224
20,566	296	—	—	—	—	54,279
1,258	134	2	—	1	1	30,380
4,524	483	19,487	1,419	6,643	579	685,220
629	67	—	—	—	—	15,158
—	167	—	—	—	—	135,590
—	—	—	—	—	—	7,040
26,977	1,147	19,489	1,419	6,644	580	927,667
—	—	—	—	—	—	421
—	—	—	—	—	—	47,913,249
1,790,807	183,444	328,361	23,727	112,722	10,803	2,449,864
\$ 1,790,807	\$ 183,444	\$ 328,361	\$ 23,727	\$ 112,722	\$ 10,803	\$ 50,363,113

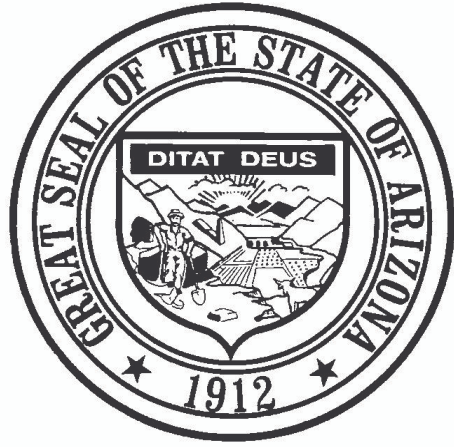
STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

PENSION TRUST FUNDS

	ASRS	PSPRS	EORP	CORP	AOC
ADDITIONS:					
Member contributions	\$ 1,099,663	\$ 129,191	\$ 4,225	\$ 41,426	\$ 9,741
Employer contributions	1,085,033	606,171	695	99,547	26,036
Non-employer entity contributions	—	18,944	5,000	—	—
Member purchase of service credit	19,988	12,928	856	605	88
Court fees	—	—	9,924	—	—
Investment income:					
Net increase in fair value of investments	3,135,540	400,027	16,836	81,208	20,839
Interest income	85,999	4,851	196	990	254
Dividends	346,903	59,884	2,417	12,226	3,142
Other investment income	39,335	50,150	2,073	10,308	2,650
Securities lending income	5,686	7,375	293	1,508	388
Total investment income	3,613,463	522,287	21,815	106,240	27,273
Less investment expenses:					
Investment activity expenses	198,298	40,686	1,655	8,301	2,134
Securities lending expenses	542	3,983	158	814	209
Net investment income	3,414,623	477,618	20,002	97,125	24,930
Other additions	2,423	890	257	345	76
Total Additions	5,621,730	1,245,742	40,959	239,048	60,871
DEDUCTIONS:					
Retirement, disability, and survivor benefits	3,045,450	774,945	63,970	124,793	29,093
Health insurance subsidy	—	—	—	—	—
Refunds to withdrawing members, including interest	259,358	15,242	55	25,925	2,017
Administrative expense	26,878	7,377	305	1,514	395
Other deductions	851	375	—	565	190
Total Deductions	3,332,537	797,939	64,330	152,797	31,695
Change in net position restricted for:					
Pension benefits	2,289,193	447,803	(23,371)	86,251	29,176
Other post-employment benefits	—	—	—	—	—
Net Position - Beginning	36,202,756	6,841,327	298,118	1,353,330	388,666
Net Position - Ending	\$ 38,491,949	\$ 7,289,130	\$ 274,747	\$ 1,439,581	\$ 417,842

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
\$ —	\$ 15,512	\$ —	\$ —	\$ —	\$ —	\$ 1,299,758
42,976	15,902	2,121	—	1,193	956	1,880,630
—	—	—	—	—	—	23,944
—	—	—	—	—	—	34,465
—	—	—	—	—	—	9,924
136,591	13,555	18,387	1,387	6,409	547	3,831,326
5,376	370	223	16	78	6	98,359
15,074	1,574	2,753	199	965	77	445,214
1,710	163	2,305	171	815	65	109,745
247	25	339	24	119	10	16,014
158,998	15,687	24,007	1,797	8,386	705	4,500,658
8,594	925	1,870	136	655	52	263,306
24	2	183	13	65	5	5,998
150,380	14,760	21,954	1,648	7,666	648	4,231,354
2,225	—	—	—	—	—	6,216
195,581	46,174	24,075	1,648	8,859	1,604	7,486,291
—	57,664	—	—	—	—	4,095,915
96,098	—	16,641	1,047	3,684	478	117,948
—	—	—	—	—	—	302,597
1,234	1,555	334	24	117	10	39,743
—	209	—	—	—	—	2,190
97,332	59,428	16,975	1,071	3,801	488	4,558,393
—	—	—	—	—	—	2,829,052
98,249	(13,254)	7,100	577	5,058	1,116	98,846
1,692,558	196,698	321,261	23,150	107,664	9,687	47,435,215
\$ 1,790,807	\$ 183,444	\$ 328,361	\$ 23,727	\$ 112,722	\$ 10,803	\$ 50,363,113



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, 2018
(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
ASSETS					
Cash and pooled investments with State Treasurer	\$ —	\$ —	\$ 36	\$ 1,083	\$ —
Receivables, net of allowances:					
Accrued interest and dividends	928	252	105	1,343	271
Investments, at fair value:					
Fixed income securities	387,214	1,354,963	1,294,435	341,795	128,862
Collateral investment pool	1,305	—	—	8,174	—
Total investments	<u>388,519</u>	<u>1,354,963</u>	<u>1,294,435</u>	<u>349,969</u>	<u>128,862</u>
Total Assets	<u>389,447</u>	<u>1,355,215</u>	<u>1,294,576</u>	<u>352,395</u>	<u>129,133</u>
LIABILITIES					
Management fee payable	18	74	62	16	6
Obligations under securities loan agreements	1,305	—	—	8,174	—
Total Liabilities	<u>1,323</u>	<u>74</u>	<u>62</u>	<u>8,190</u>	<u>6</u>
NET POSITION					
Held in trust for pool participants	<u>\$ 388,124</u>	<u>\$ 1,355,141</u>	<u>\$ 1,294,514</u>	<u>\$ 344,205</u>	<u>\$ 129,127</u>
Net position consist of:					
Participant shares outstanding	390,169	1,355,141	1,294,514	336,050	129,786
Participants' net position value (net position/shares outstanding)	\$ 0.99	\$ 1.00	\$ 1.00	\$ 1.02	\$ 0.99

LEHMAN BROTHERS POOL	TOTAL
\$ 1,342	\$ 2,461
—	2,899
565	3,507,834
—	9,479
<u>565</u>	<u>3,517,313</u>
<u>1,907</u>	<u>3,522,673</u>
—	176
—	9,479
—	9,655
<u>\$ 1,907</u>	<u>\$ 3,513,018</u>

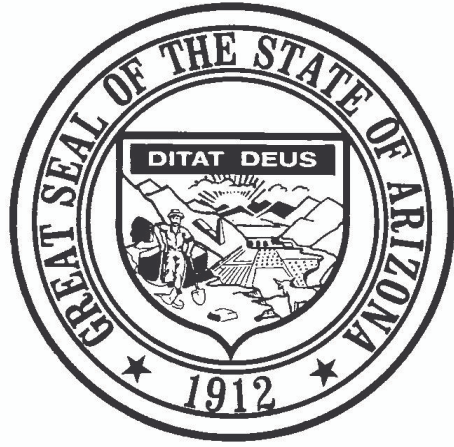
19,301	3,524,961
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\$ 0.10

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISCTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL- FF&C	LOCAL GOVERNMENT INVESTMENT POOL- MEDIUM - TERM	LOCAL GOVERNMENT INVESTMENT POOL- MEDIUM TERM FF&C
ADDITIONS:					
Investment income:					
Net increase (decrease) in fair value of investments	\$ (2,738)	\$ 416	\$ 327	\$ (3,218)	\$ (1,842)
Interest income	7,380	19,441	16,658	6,439	2,612
Securities lending income	7	—	253	18	—
Total investment income	<u>4,649</u>	<u>19,857</u>	<u>17,238</u>	<u>3,239</u>	<u>770</u>
Less: investment activity expenses					
Investment activity expenses	207	760	717	180	75
Security lending expenses	5	—	76	15	—
Net investment income	<u>4,437</u>	<u>19,097</u>	<u>16,445</u>	<u>3,044</u>	<u>695</u>
Capital share and individual account transactions:					
Shares sold	164,951	2,980,061	1,975,050	49,030	14,459
Reinvested interest income	6,989	19,097	16,328	5,961	2,229
Shares redeemed	(150,453)	(2,760,815)	(2,019,402)	(34,582)	(24,385)
Net capital share and individual account transactions	<u>21,487</u>	<u>238,343</u>	<u>(28,024)</u>	<u>20,409</u>	<u>(7,697)</u>
Total Additions	<u>25,924</u>	<u>257,440</u>	<u>(11,579)</u>	<u>23,453</u>	<u>(7,002)</u>
DEDUCTIONS:					
Dividends to investors	4,437	19,097	16,445	3,044	695
Total Deductions	<u>4,437</u>	<u>19,097</u>	<u>16,445</u>	<u>3,044</u>	<u>695</u>
Change in net position held in trust for pool participants	21,487	238,343	(28,024)	20,409	(7,697)
Net Position - Beginning	<u>366,637</u>	<u>1,116,798</u>	<u>1,322,538</u>	<u>323,796</u>	<u>136,824</u>
Net Position - Ending	<u>\$ 388,124</u>	<u>\$ 1,355,141</u>	<u>\$ 1,294,514</u>	<u>\$ 344,205</u>	<u>\$ 129,127</u>

<u>LEHMAN BROTHERS POOL</u>	<u>TOTAL</u>
\$ 138	\$ (6,917)
—	52,530
—	278
<u>138</u>	<u>45,891</u>
—	1,939
—	96
<u>138</u>	<u>43,856</u>
—	5,183,551
—	50,604
—	(4,989,637)
<u>—</u>	<u>244,518</u>
<u>138</u>	<u>288,374</u>
—	43,718
—	43,718
138	244,656
1,769	3,268,362
<u>\$ 1,907</u>	<u>\$ 3,513,018</u>



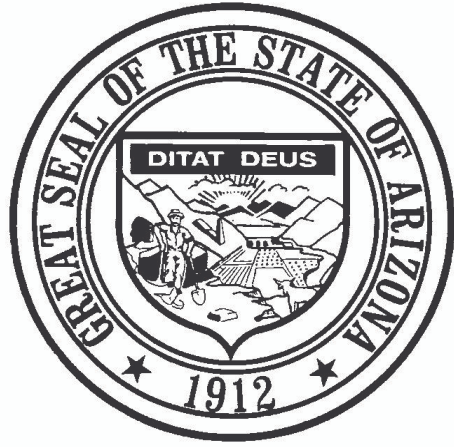
AGENCY FUNDS

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, 2018
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
ASSETS				
Cash	\$ —	\$ 3	\$ 6,600	\$ 6,603
Cash and pooled investments with State Treasurer	—	25,579	58,107	83,686
Receivables, net of allowances:				
Accrued interest	—	—	2	2
Other	—	10	6	16
Due from others	—	—	78,842	78,842
Custodial securities in safekeeping	443,610	—	6,096	449,706
Total Assets	<u>\$ 443,610</u>	<u>\$ 25,592</u>	<u>\$ 149,653</u>	<u>\$ 618,855</u>
LIABILITIES				
Due to local governments	\$ —	\$ 237	\$ 10,372	\$ 10,609
Due to others	443,610	25,355	139,281	608,246
Total Liabilities	<u>\$ 443,610</u>	<u>\$ 25,592</u>	<u>\$ 149,653</u>	<u>\$ 618,855</u>

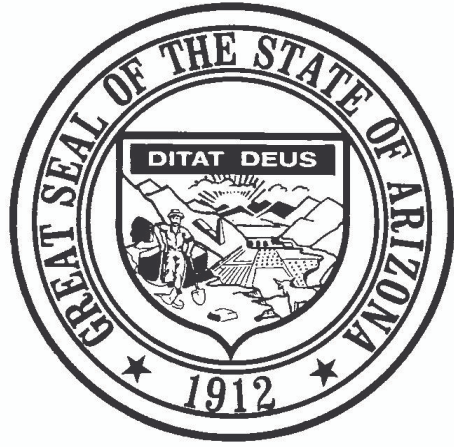
STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	BALANCE JULY 1, 2017	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2018
TREASURER CUSTODIAL SECURITIES FUND				
Assets:				
Custodial securities in safekeeping	\$ 558,176	\$ 325,382	\$ 439,948	\$ 443,610
Total Assets	<u>\$ 558,176</u>	<u>\$ 325,382</u>	<u>\$ 439,948</u>	<u>\$ 443,610</u>
Liabilities:				
Due to others	\$ 558,176	\$ 325,382	\$ 439,948	\$ 443,610
Total Liabilities	<u>\$ 558,176</u>	<u>\$ 325,382</u>	<u>\$ 439,948</u>	<u>\$ 443,610</u>
OTHER TREASURER FUNDS				
Assets:				
Cash	\$ 3	\$ —	\$ —	\$ 3
Cash and pooled investments with State Treasurer	14,200	217,370	205,991	25,579
Receivables, net of allowances:				
Other	—	185	175	10
Total Assets	<u>\$ 14,203</u>	<u>\$ 217,555</u>	<u>\$ 206,166</u>	<u>\$ 25,592</u>
Liabilities:				
Due to local governments	\$ 267	\$ 167,716	\$ 167,746	\$ 237
Due to others	13,936	64,367	52,948	25,355
Total Liabilities	<u>\$ 14,203</u>	<u>\$ 232,083</u>	<u>\$ 220,694</u>	<u>\$ 25,592</u>
OTHER FUNDS				
Assets:				
Cash	\$ 10,749	\$ 736,712	\$ 740,861	\$ 6,600
Cash and pooled investments with State Treasurer	64,237	164,909	171,039	58,107
Receivables, net of allowances:				
Accrued interest	2	—	—	2
Other	7	107	108	6
Due from others	81,500	78,842	81,500	78,842
Custodial securities in safekeeping	6,230	6,096	6,230	6,096
Total Assets	<u>\$ 162,725</u>	<u>\$ 986,666</u>	<u>\$ 999,738</u>	<u>\$ 149,653</u>
Liabilities:				
Due to local governments	\$ 10,208	\$ 124,034	\$ 123,870	\$ 10,372
Due to others	152,517	1,061,238	1,074,474	139,281
Total Liabilities	<u>\$ 162,725</u>	<u>\$ 1,185,272</u>	<u>\$ 1,198,344</u>	<u>\$ 149,653</u>

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	BALANCE JULY 1, 2017	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2018
COMBINED TOTAL ALL AGENCY FUNDS				
Assets:				
Cash	\$ 10,752	\$ 736,712	\$ 740,861	\$ 6,603
Cash and pooled investments with State Treasurer	78,437	382,279	377,030	83,686
Receivables, net of allowances:				
Accrued interest	2	—	—	2
Other	7	292	283	16
Due from others	81,500	78,842	81,500	78,842
Custodial securities in safekeeping	564,406	331,478	446,178	449,706
Total Assets	<u>\$ 735,104</u>	<u>\$ 1,529,603</u>	<u>\$ 1,645,852</u>	<u>\$ 618,855</u>
Liabilities:				
Due to local governments	\$ 10,475	\$ 291,750	\$ 291,616	\$ 10,609
Due to others	724,629	1,450,987	1,567,370	608,246
Total Liabilities	<u>\$ 735,104</u>	<u>\$ 1,742,737</u>	<u>\$ 1,858,986</u>	<u>\$ 618,855</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, 2018
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	ARIZONA PUBLIC SCHOOL CREDIT ENHANCEMENT	ARIZONA COMMERCE AUTHORITY	TOTAL
ASSETS					
Current Assets:					
Cash	\$ —	\$ 11,853	\$ —	\$ 22,833	\$ 34,686
Cash and pooled investments with State Treasurer	8,902	—	104,767	78,169	191,838
Restricted investments held by trustee	706	—	—	—	706
Receivables, net of allowances:					
Loans and notes	—	—	—	436	436
Other	2,082	803	—	909	3,794
Due from primary government	—	2,047	—	—	2,047
Other current assets	816	34	—	135	985
Total Current Assets	12,506	14,737	104,767	102,482	234,492
Noncurrent Assets:					
Restricted assets:					
Cash held by trustee	—	15,008	—	—	15,008
Investments held by trustee	1,740	—	—	—	1,740
Loans and notes receivable, net of allowances	—	8,814	—	2,655	11,469
Other noncurrent assets	20,633	—	—	—	20,633
Capital assets:					
Land and other non-depreciable	—	38,860	—	—	38,860
Buildings, equipment, and other depreciable, net of accumulated depreciation	93	31,662	—	536	32,291
Total Noncurrent Assets	22,466	94,344	—	3,191	120,001
Total Assets	34,972	109,081	104,767	105,673	354,493
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	122	—	—	—	122
Loss on debt refundings	—	5,928	—	—	5,928
Total Deferred Outflows of Resources	122	5,928	—	—	6,050

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF NET POSITION
NON-MAJOR COMPONENT UNITS
JUNE 30, 2018
(Expressed in Thousands)

	ARIZONA POWER AUTHORITY	RIO NUEVO	ARIZONA PUBLIC SCHOOL CREDIT ENHANCEMENT	ARIZONA COMMERCE AUTHORITY	TOTAL
LIABILITIES					
Current Liabilities:					
Accounts payable and other current liabilities	\$ 5,392	\$ 11,855	\$ —	\$ 1,287	\$ 18,534
Accrued liabilities	299	29	—	263	591
Unearned revenue	—	—	—	1,139	1,139
Current portion of long-term debt	540	8,129	—	—	8,669
Total Current Liabilities	6,231	20,013	—	2,689	28,933
Noncurrent Liabilities:					
Net pension liability	735	—	—	—	735
Long-term debt	26,025	69,786	80,000	—	175,811
Total Noncurrent Liabilities	26,760	69,786	80,000	—	176,546
Total Liabilities	32,991	89,799	80,000	2,689	205,479
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	128	—	—	—	128
NET POSITION					
Net investment in capital assets	93	51,859	—	536	52,488
Restricted for:					
Debt service	2,446	10,676	—	—	13,122
Loans and other financial assistance	—	—	—	19,244	19,244
Other	—	—	—	10,137	10,137
Unrestricted (deficit)	(564)	(37,325)	24,767	73,067	59,945
Total Net Position	\$ 1,975	\$ 25,210	\$ 24,767	\$ 102,984	\$ 154,936

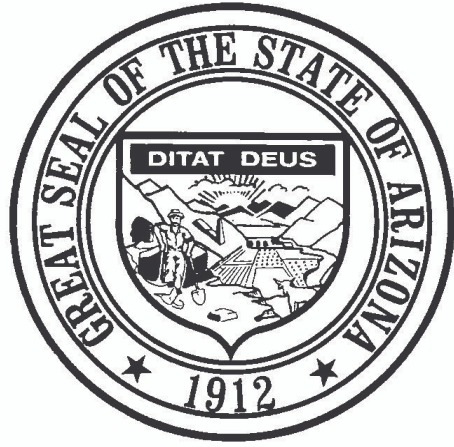
STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
 NON-MAJOR COMPONENT UNITS
 FOR THE YEAR ENDED JUNE 30, 2018
 (Expressed in Thousands)

	PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<u>FUNCTIONS/PROGRAMS</u>			
Arizona Power Authority	\$ 30,400	\$ 28,181	\$ —
Rio Nuevo	8,030	1,382	—
Arizona Public School Credit Enhancement	—	148	—
Arizona Commerce Authority	21,323	1,202	1,826
Total	<u>\$ 59,753</u>	<u>\$ 30,913</u>	<u>\$ 1,826</u>

General Revenues:
 Unrestricted investment earnings
 Unrestricted grants and contributions
 Payments from primary government
 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
\$ (2,219)	\$ —	\$ —	\$ —	\$ (2,219)
—	(6,648)	—	—	(6,648)
—	—	148	—	148
—	—	—	(18,295)	(18,295)
151	100	821	1,336	2,408
—	—	—	144	144
—	12,540	—	25,300	37,840
—	231	—	61	292
(2,068)	6,223	969	8,546	13,670
4,043	18,987	23,798	94,438	141,266
<u>\$ 1,975</u>	<u>\$ 25,210</u>	<u>\$ 24,767</u>	<u>\$ 102,984</u>	<u>\$ 154,936</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, 2018
(Expressed in Thousands)

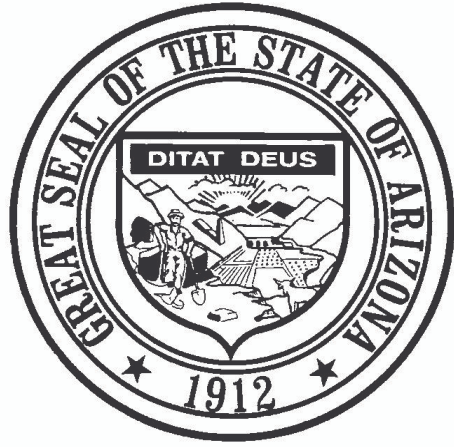
	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION
ASSETS						
Cash and cash equivalent investments	\$ 2,064	\$ 7,739	\$ 3,647	\$ 1,115	\$ 1,852	\$ 375
Receivables:						
Pledges receivable	9,813	36,055	—	9	4,712	417
Other receivables	1,629	484	34,119	90	775	—
Total receivables	11,442	36,539	34,119	99	5,487	417
Investments:						
Investments in securities	183,228	—	—	17,517	—	11,981
Other investments	14,730	—	—	—	—	170
Total investments	197,958	—	—	17,517	—	12,151
Net direct financing leases	4,649	—	—	—	—	—
Property and equipment, net of accumulated depreciation	—	15	5,699	—	6,286	—
Other assets	233	172	2,198	133	329	7
Total Assets	216,346	44,465	45,663	18,864	13,954	12,950
LIABILITIES						
Accounts payable and accrued liabilities	273	163	10	125	4,572	104
Liability under endowment trust agreements	34,235	—	—	—	—	—
Long-term debt	—	—	3,175	—	—	—
Deferred revenue	5,341	—	12,863	28	71	—
Other liabilities	3,090	—	2,102	13	—	—
Total Liabilities	42,939	163	18,150	166	4,643	104
NET ASSETS						
Permanently restricted	83,020	—	—	—	—	5,859
Temporarily restricted	81,573	43,639	—	233	6,793	4,053
Unrestricted	8,814	663	27,513	18,465	2,518	2,934
Total Net Assets	\$ 173,407	\$ 44,302	\$ 27,513	\$ 18,698	\$ 9,311	\$ 12,846

UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ 9,002	\$ 930	\$ 324	\$ 27,048
—	359	—	51,365
1,045	1,757	47	39,946
1,045	2,116	47	91,311
—	7,774	—	220,500
—	45	—	14,945
—	7,819	—	235,445
—	—	—	4,649
24,225	125	—	36,350
6,689	95	—	9,856
40,961	11,085	371	404,659
1,652	185	63	7,147
—	—	—	34,235
5,530	23	—	8,728
3,590	3,386	62	25,341
146	—	—	5,351
10,918	3,594	125	80,802
—	—	—	88,879
—	337	—	136,628
30,043	7,154	246	98,350
\$ 30,043	\$ 7,491	\$ 246	\$ 323,857

STATE OF ARIZONA
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR UNIVERSITIES - AFFILIATED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	NORTHERN ARIZONA UNIVERSITY FOUNDATION	SUN ANGEL FOUNDATION	ARIZONA STATE UNIVERSITY RESEARCH PARK, INC.	ARIZONA STATE UNIVERSITY ALUMNI ASSOCIATION	ARIZONA STATE UNIVERSITY PREPARATORY ACADEMY, INC.	UNIVERSITY OF ARIZONA LAW COLLEGE ASSOCIATION
REVENUES						
Contributions	\$ 13,803	\$ 17,162	\$ —	\$ 1,269	\$ 11,649	\$ 659
Rental revenue	—	—	10,329	—	—	—
Sales and services	—	284	—	1,496	1,555	—
Net investment income	13,435	102	1	1,115	—	853
Grants and aid	—	—	—	—	19,465	—
Other revenues	2,882	385	148	141	405	493
Total Revenues	30,120	17,933	10,478	4,021	33,074	2,005
EXPENSES						
Program services:						
Payments to Universities	—	15,677	3,103	—	—	—
Leasing related expenses	—	—	—	—	—	—
Payments on behalf of Universities	—	—	—	—	—	1,520
Other program services	8,483	—	—	—	—	—
Management and general expenses	588	1,207	1,130	3,163	33,985	184
Fundraising expenses	5,038	—	—	—	—	101
Interest	—	—	205	—	—	—
Depreciation and amortization	112	—	387	—	668	—
Other expenses	—	1,498	149	393	—	—
Total Expenses	14,221	18,382	4,974	3,556	34,653	1,805
Increase (decrease) in Net Assets	15,899	(449)	5,504	465	(1,579)	200
Net Assets - Beginning	157,508	44,751	22,009	18,233	10,890	12,646
Net Assets - Ending	\$ 173,407	\$ 44,302	\$ 27,513	\$ 18,698	\$ 9,311	\$ 12,846

UNIVERSITY OF ARIZONA CAMPUS RESEARCH CORPORATION	UNIVERSITY OF ARIZONA ALUMNI ASSOCIATION	UNIVERSITY OF ARIZONA ELLER EXECUTIVE EDUCATION	TOTAL
\$ —	\$ 616	\$ —	\$ 45,158
15,008	—	—	25,337
—	1,033	1,485	5,853
27	422	—	15,955
—	—	—	19,465
210	2,356	—	7,020
15,245	4,427	1,485	118,788
—	—	191	18,971
10,798	—	—	10,798
—	2,790	785	5,095
—	—	—	8,483
1,811	777	391	43,236
—	302	—	5,441
—	—	—	205
—	—	—	1,167
—	—	—	2,040
12,609	3,869	1,367	95,436
2,636	558	118	23,352
27,407	6,933	128	300,505
\$ 30,043	\$ 7,491	\$ 246	\$ 323,857



STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)

STATISTICAL SECTION

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, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018 (14)	2017, as restated	2016, as restated	2015, as restated	2014, as restated
GOVERNMENTAL ACTIVITIES:					
Net investment in capital assets (5,8)	\$ 21,486,658	\$ 20,583,563	\$ 19,722,730	\$ 18,790,889	\$ 18,053,540
Restricted (3,12)	7,552,460	7,368,184	6,856,271	7,170,289	6,829,299
Unrestricted (6,8,11)	(5,522,793)	(5,848,655)	(5,205,689)	(5,685,921)	(5,841,106)
Total Governmental Activities Net Position	<u>\$ 23,516,325</u>	<u>\$ 22,103,092</u>	<u>\$ 21,373,312</u>	<u>\$ 20,275,257</u>	<u>\$ 19,041,733</u>
BUSINESS-TYPE ACTIVITIES:					
Net investment in capital assets (4,8,9)	\$ 1,994,555	\$ 1,879,901	\$ 1,761,694	\$ 1,642,507	\$ 1,581,436
Restricted (7,13)	1,669,917	1,332,162	1,191,605	895,616	723,590
Unrestricted (2,4,6,8,9,10,11)	(17,239)	27,301	288,164	215,120	(51,586)
Total Business-type Activities Net Position	<u>\$ 3,647,233</u>	<u>\$ 3,239,364</u>	<u>\$ 3,241,463</u>	<u>\$ 2,753,243</u>	<u>\$ 2,253,440</u>
PRIMARY GOVERNMENT:					
Net investment in capital assets (4,5,9)	\$ 23,481,213	\$ 22,463,464	\$ 21,484,424	\$ 20,433,396	\$ 19,634,976
Restricted (3,7,12,13)	9,222,377	8,700,346	8,047,876	8,065,905	7,552,889
Unrestricted (2,4,6,8,9,10,11)	(5,540,032)	(5,821,354)	(4,917,525)	(5,470,801)	(5,892,692)
Total Primary Government Net Position	<u>\$ 27,163,558</u>	<u>\$ 25,342,456</u>	<u>\$ 24,614,775</u>	<u>\$ 23,028,500</u>	<u>\$ 21,295,173</u>

- (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.
- (11) Fiscal year 2017 unrestricted net position has been restated due to the implementation of GASB Statement No. 75.
- (12) Fiscal year 2017 restricted net position has been restated due to correction of error of intergovernmental revenue for the General Fund.
- (13) Fiscal year 2017 restricted net position has been restated due to correction of error of accrued insurance losses for the Insurance Department Guaranty Fund.
- (14) Beginning in fiscal year 2018, the Arizona Industries for the Blind was no longer part of the State's reporting entity.

Fiscal Year				
2013, as restated	2012, as restated	2011	2010	2009
\$ 17,410,055	\$ 16,940,512	\$ 16,326,569	\$ 15,738,121	\$ 15,094,719
6,116,083	5,447,576	5,125,527	4,648,280	3,990,594
(2,527,441)	(3,351,315)	(4,243,824)	(4,155,346)	(2,984,628)
<u>\$ 20,998,697</u>	<u>\$ 19,036,773</u>	<u>\$ 17,208,272</u>	<u>\$ 16,231,055</u>	<u>\$ 16,100,685</u>
\$ 1,526,777	\$ 1,483,416	\$ 1,397,683	\$ 1,352,658	\$ 1,328,658
531,972	496,444	501,437	550,102	1,085,399
1,049,391	810,810	695,862	576,426	376,908
<u>\$ 3,108,140</u>	<u>\$ 2,790,670</u>	<u>\$ 2,594,982</u>	<u>\$ 2,479,186</u>	<u>\$ 2,790,965</u>
\$ 18,936,832	\$ 18,423,928	\$ 17,724,252	\$ 17,090,779	\$ 16,423,377
6,648,055	5,944,020	5,626,964	5,198,382	5,075,993
(1,478,050)	(2,540,505)	(3,547,962)	(3,578,920)	(2,607,720)
<u>\$ 24,106,837</u>	<u>\$ 21,827,443</u>	<u>\$ 19,803,254</u>	<u>\$ 18,710,241</u>	<u>\$ 18,891,650</u>

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET POSITION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018 (8)	2017 (7)	2016 (7)	2015 (7)	2014 (7)
EXPENSES					
Governmental Activities:					
General government	\$ 933,641	\$ 862,738	\$ 807,320	\$ 923,659	\$ 763,830
Health and welfare (5)	16,254,160	15,661,167	15,152,650	14,296,714	12,768,332
Inspection and regulation	156,149	163,416	168,719	159,874	160,797
Education	6,538,614	6,369,100	6,136,303	5,859,267	5,573,656
Protection and safety	1,954,842	1,662,550	1,585,620	1,568,732	1,408,049
Transportation	834,697	799,882	858,958	786,028	791,006
Natural resources	230,505	216,318	208,563	204,939	200,868
Intergovernmental revenue sharing	3,480,014	3,349,498	3,176,183	2,966,400	2,778,299
Interest on long-term debt	153,914	193,099	210,326	230,871	279,525
Total Governmental Activities Expenses	<u>30,536,536</u>	<u>29,277,768</u>	<u>28,304,642</u>	<u>26,996,484</u>	<u>24,724,362</u>
Business-type Activities:					
Universities (4)	5,166,157	4,893,271	4,637,567	4,378,481	4,078,053
Unemployment Compensation (2)	—	—	—	—	—
Industrial Commission Special Fund (6)	—	—	—	—	36,895
Lottery (2)	—	—	—	—	—
Other	1,156,810	1,105,470	1,014,941	1,041,261	1,130,299
Total Business-type Activities Expenses	<u>6,322,967</u>	<u>5,998,741</u>	<u>5,652,508</u>	<u>5,419,742</u>	<u>5,245,247</u>
Total Primary Government Expenses (5)	<u>\$ 36,859,503</u>	<u>\$ 35,276,509</u>	<u>\$ 33,957,150</u>	<u>\$ 32,416,226</u>	<u>\$ 29,969,609</u>
PROGRAM REVENUES					
Governmental Activities:					
Charges for services:					
General government	\$ 218,721	\$ 195,805	\$ 196,179	\$ 188,356	\$ 188,943
Inspection and regulation	163,278	170,043	166,075	157,624	157,149
Transportation	166,221	149,297	143,697	113,163	113,267
Other activities	754,341	714,649	685,118	664,903	477,564
Operating grants and contributions	14,957,252	14,732,701	13,532,247	13,200,146	12,172,836
Capital grants and contributions	718,794	716,455	870,644	706,089	546,680
Total Governmental Activities Program Revenues	<u>16,978,607</u>	<u>16,678,950</u>	<u>15,593,960</u>	<u>15,030,281</u>	<u>13,656,439</u>
Business-type Activities:					
Charges for services:					
Universities	2,799,919	2,708,519	2,519,048	2,303,791	2,056,307
Lottery (2)	—	—	—	—	—
Other activities	1,598,155	1,461,686	1,468,139	1,345,566	1,325,046
Operating grants and contributions	1,573,533	1,488,002	1,452,562	1,320,612	1,343,922
Capital grants and contributions	20,699	27,368	11,911	43,321	41,250
Total Business-type Activities Program Revenues	<u>5,992,306</u>	<u>5,685,575</u>	<u>5,451,660</u>	<u>5,013,290</u>	<u>4,766,525</u>
Total Primary Government Program Revenues	<u>\$ 22,970,913</u>	<u>\$ 22,364,525</u>	<u>\$ 21,045,620</u>	<u>\$ 20,043,571</u>	<u>\$ 18,422,964</u>
NET (EXPENSE) REVENUE					
Governmental activities	\$ (13,557,929)	\$ (12,598,818)	\$ (12,710,682)	\$ (11,966,203)	\$ (11,067,923)
Business-type activities	(330,661)	(313,166)	(200,848)	(406,452)	(478,722)
Total Primary Government Net (Expense)	<u>\$ (13,888,590)</u>	<u>\$ (12,911,984)</u>	<u>\$ (12,911,530)</u>	<u>\$ (12,372,655)</u>	<u>\$ (11,546,645)</u>

Fiscal Year

2013, as restated	2012, as restated	2011	2010	2009
\$ 836,431	\$ 840,189	\$ 929,107	\$ 941,813	\$ 928,485
12,168,426	11,992,408	12,558,119	13,090,357	12,055,439
161,480	151,937	149,649	157,786	176,354
5,372,267	5,331,848	5,467,543	5,706,667	6,084,342
1,400,413	1,380,999	1,299,205	1,451,571	1,514,282
754,510	808,967	857,194	511,397	695,070
204,179	213,339	196,210	183,535	228,430
2,685,378	2,473,881	2,462,178	2,585,683	2,755,710
355,975	350,483	341,801	261,518	222,851
<u>23,939,059</u>	<u>23,544,051</u>	<u>24,261,006</u>	<u>24,890,327</u>	<u>24,660,963</u>
3,888,145	3,629,568	3,533,977	3,343,377	3,290,033
—	1,069,531	1,655,364	2,103,028	1,086,330
38,614	83,290	27,196	67,750	30,055
—	496,830	439,069	432,150	395,950
1,329,816	113,347	115,442	126,029	142,229
<u>5,256,575</u>	<u>5,392,566</u>	<u>5,771,048</u>	<u>6,072,334</u>	<u>4,944,597</u>
<u>\$ 29,195,634</u>	<u>\$ 28,936,617</u>	<u>\$ 30,032,054</u>	<u>\$ 30,962,661</u>	<u>\$ 29,605,560</u>
\$ 188,462	\$ 189,175	\$ 191,738	\$ 208,316	\$ 199,011
156,164	150,557	149,890	143,329	153,642
119,862	108,877	114,453	123,372	138,520
386,381	398,893	381,633	402,496	315,660
11,588,834	11,357,470	12,580,013	13,735,263	10,620,642
651,999	778,572	745,559	576,027	553,198
<u>13,091,702</u>	<u>12,983,544</u>	<u>14,163,286</u>	<u>15,188,803</u>	<u>11,980,673</u>
1,892,356	1,752,509	1,601,077	1,432,055	1,272,694
—	646,675	583,537	551,492	484,486
1,289,456	584,240	560,502	509,254	439,010
1,570,854	1,705,773	2,212,673	2,260,071	1,243,697
15,210	53,571	14,799	12,563	14,710
<u>4,767,876</u>	<u>4,742,768</u>	<u>4,972,588</u>	<u>4,765,435</u>	<u>3,454,597</u>
<u>\$ 17,859,578</u>	<u>\$ 17,726,312</u>	<u>\$ 19,135,874</u>	<u>\$ 19,954,238</u>	<u>\$ 15,435,270</u>
\$ (10,847,357)	\$ (10,560,507)	\$ (10,097,720)	\$ (9,701,524)	\$ (12,680,290)
(488,699)	(649,798)	(798,460)	(1,306,899)	(1,490,000)
<u>\$ (11,336,056)</u>	<u>\$ (11,210,305)</u>	<u>\$ (10,896,180)</u>	<u>\$ (11,008,423)</u>	<u>\$ (14,170,290)</u>

(Continued)

STATE OF ARIZONA
SCHEDULE 2
CHANGES IN NET POSITION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018 (8)	2017 (7)	2016 (7)	2015 (7)	2014 (7)
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION					
Governmental Activities:					
Taxes:					
Sales	\$ 7,194,123	\$ 6,775,704	\$ 6,455,837	\$ 6,290,950	\$ 5,948,055
Income	4,946,644	4,500,902	4,511,674	4,430,602	3,963,197
Tobacco	298,369	316,073	318,902	314,522	314,313
Property	55,112	46,798	51,735	52,241	41,215
Motor vehicle and fuel	1,950,380	1,875,392	1,823,998	1,694,779	1,650,579
Other	638,988	655,363	616,580	560,920	547,481
Unrestricted investment earnings	42,463	50,009	58,250	87,115	79,215
Unrestricted grants and contributions	35,324	35,032	115,097	39,847	37,926
Gain (loss) on sale of trust land	161,953	47,503	75,042	97,231	83,695
Miscellaneous general revenues (3)	178,298	117,933	247,462	232,658	176,035
Transfers	(530,492)	(529,455)	(465,840)	(601,539)	(578,361)
Total Governmental Activities	14,971,162	13,891,254	13,808,737	13,199,326	12,263,350
Business-type Activities:					
Sales taxes	75,642	72,696	69,927	64,757	63,669
Unrestricted investment earnings	50,825	81,363	68,795	37,839	108,296
Unrestricted grants and contributions	—	—	548	—	107
Miscellaneous general revenues	79,617	79,726	65,143	138,931	78,837
Contributions to permanent endowments	5,702	3,276	5,472	5,740	6,561
Special items	—	—	—	—	—
Extraordinary items	—	—	—	—	3,900
Transfers	530,492	529,455	465,840	601,539	578,361
Total Business-type Activities	742,278	766,516	675,725	848,806	839,731
Total Primary Government	\$ 15,713,440	\$ 14,657,770	\$ 14,484,462	\$ 14,048,132	\$ 13,103,081
CHANGE IN NET POSITION					
Governmental activities	\$ 1,413,233	\$ 1,292,436	\$ 1,098,055	\$ 1,233,123	\$ 1,195,427
Business-type activities	411,617	453,350	474,877	442,354	361,009
Total Primary Government	\$ 1,824,850	\$ 1,745,786	\$ 1,572,932	\$ 1,675,477	\$ 1,556,436

- (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) - (13) in Schedule 1.
- (8) Beginning in fiscal year 2018, the Arizona Industries for the Blind was no longer part of the State's reporting entity.

		Fiscal Year				
2013, as restated	2012, as restated	2011	2010			
		2009				
\$ 6,518,480	\$ 6,296,151	\$ 5,942,250	\$ 5,029,050	\$ 5,442,563		
3,974,998	3,706,698	3,366,783	2,809,995	3,126,076		
316,050	317,369	320,657	332,893	370,073		
27,429	30,656	32,038	31,417	32,564		
1,592,911	1,581,909	1,565,525	1,583,790	1,643,276		
531,186	522,510	550,430	535,435	574,030		
18,705	79,190	29,183	37,665	92,957		
45,746	40,678	16,468	13,213	12,440		
174,095	125,479	(154,359)	64,005	(165,696)		
144,403	265,214	140,854	204,295	222,712		
(534,722)	(576,846)	(734,892)	(809,864)	(983,006)		
<u>12,809,281</u>	<u>12,389,008</u>	<u>11,074,937</u>	<u>9,831,894</u>	<u>10,367,989</u>		
57,490	55,309	52,913	52,318	58,528		
62,017	49,501	68,401	70,766	22,450		
5	3,468	—	—	—		
148,743	155,757	50,510	52,072	45,786		
3,192	3,270	3,656	3,020	4,014		
—	—	—	—	7,240		
—	—	3,884	7,080	2,720		
534,722	576,846	734,892	809,864	983,006		
<u>806,169</u>	<u>844,151</u>	<u>914,256</u>	<u>995,120</u>	<u>1,123,744</u>		
<u>\$ 13,615,450</u>	<u>\$ 13,233,159</u>	<u>\$ 11,989,193</u>	<u>\$ 10,827,014</u>	<u>\$ 11,491,733</u>		
\$ 1,961,924	\$ 1,828,501	\$ 977,217	\$ 130,370	\$ (2,312,301)		
317,470	194,353	115,796	(311,779)	(366,256)		
<u>\$ 2,279,394</u>	<u>\$ 2,022,854</u>	<u>\$ 1,093,013</u>	<u>\$ (181,409)</u>	<u>\$ (2,678,557)</u>		

STATE OF ARIZONA
SCHEDULE 3
FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018	2017, as restated	2016	2015, as restated	2014
GENERAL FUND:					
Reserved for:					
Budget stabilization fund	\$ —	\$ —	\$ —	\$ —	\$ —
School facilities improvements	—	—	—	—	—
Continuing appropriations	—	—	—	—	—
Other fund balance reservations	—	—	—	—	—
Unreserved	—	—	—	—	—
Nonspendable (2)	11,632	9,990	9,669	9,168	9,600
Restricted (2,6)	44,401	133,472	91,833	241,919	124,390
Committed (2)	113,204	93,343	126,484	99,145	79,837
Unassigned (2,4,7)	—	(258,262)	(78,903)	(325,380)	(189,238)
Total General Fund	\$ 169,237	\$ (21,457)	\$ 149,083	\$ 24,852	\$ 24,589
ALL OTHER GOVERNMENTAL FUNDS:					
Reserved for:					
Highway construction	\$ —	\$ —	\$ —	\$ —	\$ —
Other construction	—	—	—	—	—
Permanent funds	—	—	—	—	—
Continuing appropriations	—	—	—	—	—
Debt service	—	—	—	—	—
Other fund balance reservations	—	—	—	—	—
Unreserved, reported in:					
Special revenue funds	—	—	—	—	—
Nonspendable (2)	5,849,429	5,603,620	5,124,432	5,181,556	4,878,682
Restricted (2,3)	1,482,258	1,479,706	1,488,010	1,573,453	1,741,674
Committed (2)	1,060,444	964,570	937,949	825,740	734,446
Unassigned (2,5)	(14,491)	(18,752)	(21,325)	(27,562)	(29,744)
Total All Other Governmental Funds	\$ 8,377,640	\$ 8,029,144	\$ 7,529,066	\$ 7,553,187	\$ 7,325,058

- (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.
- (6) Fiscal year 2017 restricted fund balance was restated due to correction of error of intergovernmental revenue for the General Fund.
- (7) Beginning in fiscal year 2018, negative unassigned fund balance for the General Fund is being reduced against restricted and committed fund balance.

Fiscal Year				
2013	2012, as restated	2011	2010, as restated (2)	2009
\$ —	\$ —	\$ —	\$ —	\$ 2,767
—	—	—	14,764	376,993
—	—	—	55,354	43,091
—	—	—	232	252
—	—	—	(817,348)	(1,401,381)
844	891	716	—	—
192,187	246,977	317,471	—	—
73,237	109,469	141,183	—	—
156,935	(437,035)	(1,162,531)	—	—
<u>\$ 423,203</u>	<u>\$ (79,698)</u>	<u>\$ (703,161)</u>	<u>\$ (746,998)</u>	<u>\$ (978,278)</u>

\$ —	\$ —	\$ —	\$ 809,497	\$ 1,304,781
—	—	—	45,403	108,129
—	—	—	2,674,953	2,196,040
—	—	—	116,350	212,553
—	—	—	26,389	27,115
—	—	—	40,327	7,447
—	—	—	821,491	767,258
4,160,485	3,472,005	3,244,080	—	—
1,860,872	1,762,356	1,531,992	—	—
661,110	514,085	452,447	—	—
(26,266)	(33,861)	(39,009)	—	—
<u>\$ 6,656,201</u>	<u>\$ 5,714,585</u>	<u>\$ 5,189,510</u>	<u>\$ 4,534,410</u>	<u>\$ 4,623,323</u>

STATE OF ARIZONA
SCHEDULE 4
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018	2017, as restated	2016	2015 (4)	2014
REVENUES					
Taxes:					
Sales	\$ 7,173,126	\$ 6,732,684	\$ 6,450,967	\$ 6,281,286	\$ 5,933,824
Income	4,892,382	4,473,790	4,513,219	4,398,928	4,012,603
Tobacco	298,369	316,073	318,902	314,522	314,313
Property	55,112	46,798	51,735	52,241	41,215
Motor vehicle and fuel	1,950,380	1,875,392	1,823,998	1,694,779	1,650,579
Other	638,988	655,363	616,580	560,920	547,481
Intergovernmental (5)	15,040,118	14,731,475	14,166,387	13,606,650	11,752,711
Licenses, fees, and permits	582,918	573,867	542,064	486,331	475,833
Hospital and nursing facility assessments	318,199	292,049	299,608	291,324	91,578
Earnings (loss) on investments	474,390	639,717	175,444	295,125	739,859
Sales and charges for services (2)	243,820	229,099	188,667	193,553	185,682
Fines, forfeitures, and penalties	156,666	136,161	159,647	152,728	171,161
Gaming	95,367	89,310	91,748	89,512	86,326
Tobacco settlement	101,761	101,522	98,907	99,975	100,765
Proceeds from sale of trust land	119,122	179,028	91,022	123,483	86,319
Other (3)	213,776	167,229	264,474	254,522	208,858
Total Revenues	32,354,494	31,239,557	29,853,369	28,895,879	26,399,107
EXPENDITURES					
Current:					
General government (2)	814,922	787,284	714,313	843,159	750,163
Health and welfare	16,182,335	15,813,515	15,074,454	14,388,149	12,643,455
Inspection and regulation	160,254	160,362	165,009	158,495	161,318
Education	6,541,180	6,364,016	6,132,751	5,857,390	5,572,414
Protection and safety	1,521,638	1,487,181	1,456,651	1,402,225	1,360,387
Transportation	752,575	732,029	815,811	700,080	687,798
Natural resources	216,169	198,567	189,614	189,302	193,043
Intergovernmental revenue sharing	3,480,014	3,349,498	3,176,183	2,966,400	2,778,299
Debt service:					
Principal	561,195	639,779	517,389	560,497	493,592
Interest and other fiscal charges	213,992	229,932	249,704	270,872	312,024
Capital outlay	933,204	894,210	814,002	783,926	829,630
Total Expenditures	31,377,478	30,656,373	29,305,881	28,120,495	25,782,123
Excess (Deficiency) of Revenues Over Expenditures	977,016	583,184	547,488	775,384	616,984

Fiscal Year				
2013	2012, as restated	2011	2010, as restated	2009
\$ 6,530,609	\$ 6,312,870	\$ 5,971,141	\$ 5,017,977	\$ 5,429,453
4,034,631	3,715,082	3,398,972	2,805,426	3,137,794
316,050	317,369	320,657	332,893	370,073
27,429	30,656	32,038	31,417	32,564
1,592,911	1,581,909	1,565,525	1,585,919	1,672,151
531,186	522,510	550,430	535,435	574,030
11,592,676	11,843,908	13,019,744	13,562,547	11,316,023
476,972	477,344	452,629	425,526	410,002
—	—	—	—	—
499,919	190,055	438,068	422,564	(318,321)
182,075	188,806	186,325	203,725	154,671
181,216	168,240	184,950	224,000	203,337
86,507	85,535	80,455	77,554	84,140
149,125	101,067	99,130	105,394	125,571
225,659	137,405	95,500	78,564	143,674
169,119	297,065	164,658	230,223	253,868
<u>26,596,084</u>	<u>25,969,821</u>	<u>26,560,222</u>	<u>25,639,164</u>	<u>23,589,030</u>
812,770	838,776	933,313	923,977	913,266
12,216,622	12,029,530	12,818,468	13,054,472	11,959,640
160,636	153,947	153,718	157,461	174,633
5,369,538	5,332,141	5,467,695	5,702,963	6,031,605
1,349,146	1,351,251	1,288,577	1,417,428	1,460,692
683,607	745,306	820,417	584,363	608,631
194,714	202,677	191,429	175,568	220,030
2,685,168	2,473,535	2,459,934	2,574,539	2,764,776
412,617	386,027	383,591	288,172	235,971
329,773	344,903	357,754	286,027	238,430
765,339	769,716	824,417	1,291,341	1,295,530
<u>24,979,930</u>	<u>24,627,809</u>	<u>25,699,313</u>	<u>26,456,311</u>	<u>25,903,204</u>
<u>1,616,154</u>	<u>1,342,012</u>	<u>860,909</u>	<u>(817,147)</u>	<u>(2,314,174)</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, 2018
(Expressed in Thousands)

	Fiscal Year				
	2018	2017, as restated	2016	2015 (4)	2014
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 858,631	\$ 866,241	\$ 914,817	\$ 856,446	\$ 904,261
Transfers out	(1,375,640)	(1,303,531)	(1,367,979)	(1,392,301)	(1,397,332)
Proceeds from sale of capital assets	3,524	1,294	1,203	259	900
Capital lease and installment purchase contracts	—	43,248	3,579	1,025	113,914
Proceeds from notes and loans	—	—	—	783	29,130
Bonds issued	—	—	—	—	—
Certificates of participation issued	—	119,880	—	—	—
Grant anticipation notes issued	62,595	—	—	—	—
Refunding bonds issued	—	312,900	—	754,285	—
Refunding certificates of participation issued	31,570	—	427,540	—	305,675
Refunding grant anticipation notes issued	—	90,410	—	—	—
Payment to refunded bond escrow agent	—	(389,350)	(62,630)	(900,813)	—
Payment to refunded certificates of participation escrow agent	(31,345)	—	(422,841)	—	(310,059)
Payment to refunded grant anticipation notes escrow agent	—	(112,128)	—	—	—
Premium on debt issued	12,839	117,390	58,933	149,554	6,770
Total Other Financing Sources (Uses)	<u>(437,826)</u>	<u>(253,646)</u>	<u>(447,378)</u>	<u>(530,762)</u>	<u>(346,741)</u>
NET CHANGE IN FUND BALANCES	<u>\$ 539,190</u>	<u>\$ 329,538</u>	<u>\$ 100,110</u>	<u>\$ 244,622</u>	<u>\$ 270,243</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	2.55%	2.90%	2.70%	3.00%	3.20%

- (1) This schedule reports using the modified accrual basis of accounting.
- (2) In fiscal year 2010, amounts were restated as a result of implementing GASB Statement No. 54.
- (3) Fiscal year 2012 other revenues was restated as a result of an agency fund being reclassified to a special revenue fund.
- (4) Historical data has not been restated for footnote items (4) - (5) in Schedule 3.
- (5) Fiscal year 2017 intergovernmental revenue was restated due to correction of error for the General Fund.

Fiscal Year				
2013	2012, as restated	2011	2010, as restated	2009
\$ 782,420	\$ 821,072	\$ 862,040	\$ 1,106,250	\$ 1,248,267
(1,256,408)	(1,323,778)	(1,574,406)	(1,872,212)	(2,168,964)
1,636	1,815	3,712	3,088	2,127
15,158	8,166	4,583	187,836	4,056
51,550	9,541	11,113	32,628	23,139
194,295	259,460	180,000	425,420	621,050
—	—	150,110	998,795	580,035
—	—	158,585	—	55,420
837,340	455,900	—	—	—
62,630	—	—	—	—
—	43,825	—	—	—
(954,372)	(560,228)	—	—	—
(42,096)	—	—	—	—
—	—	—	—	—
136,210	90,753	42,291	77,709	70,083
(171,637)	(193,474)	(161,972)	959,514	435,213
<u>\$ 1,444,517</u>	<u>\$ 1,148,538</u>	<u>\$ 698,937</u>	<u>\$ 142,367</u>	<u>\$ (1,878,961)</u>
3.10%	3.10%	3.00%	2.30%	1.90%

STATE OF ARIZONA
SCHEDULE 5
NET TAXABLE SALES BY CLASSIFICATION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Fiscal Year					
	2018	2017	2016	2015	2014	2013
CLASSIFICATION (5)						
Transporting (2)	\$ 31,022	\$ 39,944	\$ 56,139	\$ 57,588	\$ 54,981	\$ 41,324
Mining, oil and gas	154,510	140,648	154,947	111,808	116,678	115,775
Mining severance	982,475	735,086	607,840	994,478	1,047,580	1,193,176
Utilities	10,337,793	9,920,286	10,031,989	9,856,234	9,923,490	9,900,238
Communications	2,067,005	2,000,877	2,306,786	2,565,400	2,965,233	3,061,730
Private car and pipelines	30,131	22,117	2,577	6,498	5,616	6,250
Publishing	84,595	87,179	105,270	106,357	101,751	84,673
Job printing	219,210	237,887	236,324	259,672	321,225	235,349
Restaurants and bars	14,347,556	13,571,567	12,715,254	12,053,486	11,085,652	10,544,419
Amusements	1,445,107	1,323,661	1,342,700	1,252,514	1,096,945	1,051,581
Commercial lease (3)	(4)	50	2	6	2	2
Personal property rentals	4,276,040	3,947,160	3,689,976	3,453,882	3,355,048	3,254,822
Contracting	11,801,258	10,252,613	9,601,228	10,653,405	11,269,503	10,092,876
Retail	67,429,685	63,922,406	61,614,309	58,463,542	55,257,510	51,276,108
MRRA amount (7)	167,434	155,624	160,125	26,816	—	—
Hotel/motel	3,342,980	3,058,663	2,819,143	2,675,510	2,334,373	2,221,059
Rental occupancy tax (6)	—	—	(503)	—	—	—
Use tax	6,590,501	6,069,074	5,703,365	5,659,094	4,749,508	5,186,464
Use tax-utilities	2,512	34,764	38,945	48,070	62,511	10,283
Membership camping (6)	—	—	—	—	—	—
Total	\$ 123,309,810	\$ 115,519,606	\$ 111,186,416	\$ 108,244,360	\$ 103,747,606	\$ 98,276,129
Direct sales tax rate (4)	5.60%	5.60%	5.60%	5.60%	5.60%	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 2009 through 2010, and 2014 through 2018. The sales tax rate was 6.6% for fiscal years 2011 through 2013. For fiscal years 2009 through 2018, the tax rate for non-metal mining, oil and gas was 3.125% and the mining severance was 2.5%. For fiscal years 2009 through 2017 the jet fuel and jet fuel use tax was \$.0305 per gallon. As of fiscal year 2018 jet fuel and jet fuel tax amount per gallon were no longer being reported by the Arizona Department of Revenue as the taxes collected are designated for the Arizona Department of Transportation's State Aviation Fund. The hotel/motel tax rate was 5.5% for fiscal years 2009 through 2010, and 2014 through 2018. 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 2018 and prior.

Fiscal Year				
	2012	2011	2010	2009
\$	52,137	\$ 41,555	\$ 41,990	\$ 37,920
	105,614	96,514	102,900	175,743
	1,623,111	1,609,451	1,164,231	729,482
	9,474,521	9,394,361	9,354,244	9,236,366
	3,190,962	2,853,538	3,618,208	2,928,433
	1,186	1,908	1,640	7,743
	92,505	98,343	103,681	102,457
	252,603	266,564	236,985	307,581
	9,996,825	9,311,826	9,020,795	9,094,485
	1,037,059	994,092	1,051,919	1,053,048
	1	2	141	1
	3,257,588	3,056,386	3,127,828	3,552,696
	9,543,335	8,983,261	9,311,612	14,882,706
	48,178,714	45,898,838	42,913,933	46,174,068
	—	—	—	—
	2,156,864	2,039,283	1,949,718	2,117,242
	(3)	43	(62)	(25)
	5,302,844	4,610,921	5,464,504	5,882,942
	10,022	10,040	(35,594)	38,653
	—	1	10	11
\$	<u>94,275,888</u>	<u>\$ 89,266,927</u>	<u>\$ 87,428,683</u>	<u>\$ 96,321,552</u>
	6.60%	6.60%	5.60%	5.60%

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STATE OF ARIZONA
SCHEDULE 6
SALES TAX REVENUE PAYERS BY CLASSIFICATION
CURRENT YEAR AND NINE YEARS AGO
(Expressed in Thousands)

CLASSIFICATION	Fiscal Year 2018		Fiscal Year 2009	
	Tax Collections	Percentage of Total	Tax Collections	Percentage of Total
Transporting	\$ 1,551	0.02%	\$ 1,894	0.04%
Non-metal mining, oil and gas	4,828	0.07	5,488	0.10
Mining severance	24,562	0.36	18,210	0.34
Utilities	516,890	7.52	461,583	8.60
Communications	103,350	1.50	146,339	2.73
Private car and pipelines	1,507	0.02	387	0.01
Publishing	4,230	0.06	5,119	0.10
Job Printing	10,960	0.16	15,371	0.29
Restaurants and bars	717,378	10.44	454,518	8.47
Amusements	72,255	1.05	52,627	0.98
Personal property rentals	213,802	3.11	177,548	3.31
Contracting	590,063	8.60	743,604	13.85
Retail	3,371,484	49.09	2,307,440	43.00
MRRA amount (3)	8,372	0.12	—	—
Hotel/motel	183,864	2.68	116,404	2.17
Rental occupancy tax (1)	—	—	3	—
Use tax utilities	126	—	1,933	0.04
Use tax	327,201	4.76	292,699	5.45
License fees	556	0.01	470	0.01
Membership camping (1)	—	—	1	—
Jet fuel tax (4)	413	0.01	4,042	0.08
Jet fuel use tax (4)	155	—	680	0.01
Non sufficient funds	219	—	(4)	—
Telecommunications service assistance	—	—	(208)	—
Mandatory EFT fees	2,496	0.04	—	—
Other	—	—	—	—
Education tax (2)	712,904	10.38	558,900	10.42
Total	\$ 6,869,166	100.00%	\$ 5,365,048	100.00%

(1) Effective November 1, 2006 these rates were repealed.

(2) The education tax is .6% of net taxable sales for most classifications. The ones that do not collect the education tax are non-metal mining, oil and gas, mining and timbering severances, hotel/motel, rental occupancy, and jet fuel taxes. The Arizona Department of Revenue's annual report does not include the amount of education tax collected from each classification; rather it reports the total collected from all classifications. The education tax became effective June 1, 2001.

(3) MRRA - Maintenance, Repair, Replacement or Alteration projects.

(4) Effective August 1, 2017, the taxes collected are designated for the Arizona Department of Transportation's State Aviation Fund.

Source: Arizona Department of Revenue Annual Reports for fiscal years 2018 and 2009.

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					
	2017	2016	2015	2014	2013	2012
Farm earnings	\$ 1,884,618	\$ 1,520,311	\$ 1,360,816	\$ 1,063,455	\$ 1,287,943	\$ 879,963
Forestry and fishing	524,068	523,865	504,818	450,127	410,413	413,431
Mining	1,506,392	1,387,102	1,462,285	1,566,010	1,535,771	1,502,892
Utilities	1,825,671	1,799,945	1,663,682	1,659,148	1,575,092	1,529,337
Construction	12,368,552	10,715,419	9,872,714	9,419,963	8,936,081	8,118,792
Manufacturing	15,132,313	14,550,410	14,269,762	13,802,875	13,491,102	13,380,267
Wholesale trade	9,608,348	9,143,331	8,886,467	8,549,376	8,379,655	8,559,568
Retail trade	14,336,855	13,678,774	13,472,042	13,150,066	12,141,782	12,146,323
Transportation and warehousing	6,876,493	6,353,279	6,013,162	5,558,618	5,144,768	5,131,165
Information	4,761,446	4,598,761	4,353,087	4,140,502	3,618,183	3,127,135
Finance and insurance	15,801,470	14,371,704	13,160,396	12,146,438	11,729,712	10,810,316
Real estate, rental, and leasing	5,849,897	5,747,676	5,190,982	4,486,811	3,978,669	2,554,638
Professional and technical services	15,829,544	15,056,278	14,533,813	13,841,359	13,297,525	12,960,670
Managing companies/enterprises	3,522,557	3,293,242	3,224,794	3,187,311	2,936,240	2,609,040
Administrative and waste services	12,629,249	11,859,879	11,532,189	10,980,144	10,355,952	9,563,967
Educational services	3,266,463	3,273,094	3,224,995	3,124,396	2,949,383	2,998,261
Health care and social assistance	25,361,632	23,801,269	22,493,765	21,447,500	20,769,650	20,196,102
Arts, entertainment, and recreation	2,930,309	2,608,287	2,366,690	2,396,356	2,112,394	1,878,111
Accommodation and food services	8,329,904	7,520,255	7,080,098	6,530,842	6,521,538	6,217,391
Other services, except public administration	7,307,981	6,940,594	6,732,519	6,561,794	6,080,178	6,005,102
Government and government enterprises	32,361,758	31,363,755	30,766,472	29,900,594	29,595,243	28,887,169
Other (1)	94,633,378	90,880,863	88,641,147	83,103,295	75,724,603	76,985,926
Total	\$ 296,648,898	\$ 280,988,093	\$ 270,806,695	\$ 257,066,980	\$ 242,571,877	\$ 236,455,566
Average effective rate (2)	1.53%	1.47%	1.47%	1.46%	1.43%	1.44%

- (1) Includes dividends, interest, rental income, personal current transfer receipts, adjustment for residence, and deductions for government social insurance.
(2) The total direct rate for personal income is not available. Average effective rate equals tax collections for the fiscal year, ending the following June 30, divided by personal income.
(3) Personal income estimates for years 2008 through 2016 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

	2011	2010	2009	2008
\$	1,164,879	\$ 669,030	\$ 488,896	\$ 632,282
	402,679	396,628	375,683	362,528
	1,280,116	1,078,519	1,153,066	1,558,250
	1,573,611	1,511,977	1,545,727	1,604,168
	8,108,091	8,016,693	8,749,456	12,831,861
	12,460,753	12,068,384	12,020,959	13,543,669
	7,991,859	7,659,150	7,751,468	8,356,044
	11,656,655	11,072,563	10,800,566	11,807,379
	4,878,063	4,571,147	4,491,638	4,744,547
	2,942,316	2,947,558	3,194,780	3,344,808
	9,956,813	9,602,994	9,427,533	9,596,031
	1,983,914	1,613,131	1,696,302	3,095,297
	12,551,489	11,780,747	11,874,073	12,857,149
	2,338,045	2,256,188	2,415,511	2,580,508
	9,145,822	8,835,016	8,976,824	9,664,264
	2,775,797	2,617,427	2,341,086	2,066,749
	19,644,652	18,869,260	18,018,004	17,430,532
	1,491,117	1,418,812	1,394,976	1,462,384
	5,749,296	5,451,478	5,446,447	5,910,072
	5,503,582	5,240,526	4,927,586	4,995,589
	28,692,183	28,598,016	28,466,755	28,412,308
	73,561,423	68,737,175	65,840,379	66,365,446
\$	<u>225,853,155</u>	<u>\$ 215,012,419</u>	<u>\$ 211,397,715</u>	<u>\$ 223,221,865</u>
	1.37%	1.34%	1.15%	1.15%

STATE OF ARIZONA
SCHEDULE 8
PERSONAL INCOME TAX RATES
FOR THE LAST TEN CALENDAR YEARS
(Expressed in Thousands)

	Calendar Year Ended December 31				
	2017	2016	2015	2014	2013
<u>AVERAGE EFFECTIVE RATE (3)</u>					
Personal Income Tax Revenue (1)	\$ 4,545,242	\$ 4,131,621	\$ 3,968,883	\$ 3,761,764	\$ 3,463,266
Personal Income (2)	296,648,898	280,988,093	270,806,695	257,066,980	242,571,877
Average Effective Rate (3)	1.53%	1.47%	1.47%	1.46%	1.43%
<u>TAX RATES ON THE PORTION OF TAXABLE INCOME IN RANGES (4)</u>					
\$0 - \$10	2.59%	2.59%	2.59%	2.59%	2.59%
\$10 - \$25	2.88%	2.88%	2.88%	2.88%	2.88%
\$25 - \$50	3.36%	3.36%	3.36%	3.36%	3.36%
\$50 - \$150	4.24%	4.24%	4.24%	4.24%	4.24%
\$150 and over	4.54%	4.54%	4.54%	4.54%	4.54%

- (1) Personal income tax revenue includes income tax collections and refunds, on a cash basis, for the fiscal year ending the following June 30.
- (2) Personal income is reported on a calendar basis. Years 2008 through 2016 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 2015 AND 2008 (1)
(Expressed in Thousands, Except Number of Filers)

	Taxable Year Ended December 31, 2015			
	Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
<u>FEDERAL ADJUSTED GROSS INCOME LEVEL (3)</u>				
\$50 and under	1,937,549	65.22%	\$ 483,009	11.96%
\$50 - \$100	610,695	20.56%	801,244	19.84%
\$100 - \$500	403,223	13.57%	1,713,231	42.42%
\$500 and over	19,336	0.65%	1,041,555	25.78%
Total	2,970,803	100.00%	\$ 4,039,039	100.00%

- (1) The taxable year 2015 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 2015, filed from January 2016 forward (or 2008, filed from January 2009 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

	2012		2011		2010		2009		2008
\$	3,398,902	\$	3,099,177	\$	2,870,565	\$	2,423,215	\$	2,575,453
	236,455,566		225,853,155		215,012,419		211,397,715		223,221,865
	1.44%		1.37%		1.34%		1.15%		1.15%
	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, 2008

Number of Filers	Percentage of Total	Liability (2)	Percentage of Total
1,784,004	67.68%	\$ 431,769	15.04%
555,464	21.07%	676,130	23.55%
284,255	10.78%	1,088,136	37.90%
12,395	0.47%	674,797	23.51%
<u>2,636,118</u>	<u>100.00%</u>	<u>\$ 2,870,832</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, 2018
(Expressed in Thousands, Except Amount of Debt per Capita)

	Fiscal Year					
	2018	2017	2016	2015	2014, as restated	2013
GOVERNMENTAL ACTIVITIES:						
Revenue bonds	\$ 2,371,765	\$ 2,640,330	\$ 2,899,875	\$ 3,141,190	\$ 3,406,195	\$ 3,606,720
Grant anticipation notes	177,420	129,475	147,320	194,670	247,710	296,240
Certificates of participation	1,585,995	1,804,395	1,891,460	2,030,805	2,200,675	2,360,595
Capital leases (3)	189,581	215,084	334,909	408,784	423,513	360,316
Installment purchase contracts	—	—	176	349	—	—
Notes payable	—	22,179	22,179	22,179	89,865	105,817
Premiums and discounts on debt	453,713	516,456	492,349	492,048	427,865	474,747
Deferred amount on refundings (2)	—	—	—	—	—	(19,945)
Total Governmental Activities	4,778,474	5,327,919	5,788,268	6,290,025	6,795,823	7,184,490
BUSINESS-TYPE ACTIVITIES:						
Revenue bonds	3,109,245	3,010,525	2,701,665	2,675,430	2,302,035	2,237,710
Certificates of participation	502,636	557,506	600,556	637,986	676,345	714,735
Capital leases	131,134	134,399	141,117	168,960	132,957	135,519
Installment purchase contracts	769	1,460	2,114	2,805	4,098	5,758
Notes payable	—	—	—	—	—	—
Premiums and discounts on debt	342,647	325,412	268,474	231,178	130,315	123,051
Deferred amount on refundings (2)	—	—	—	—	—	(46,096)
Total Business-type Activities	4,086,431	4,029,302	3,713,926	3,716,359	3,245,750	3,170,677
Total Primary Government	\$ 8,864,905	\$ 9,357,221	\$ 9,502,194	\$ 10,006,384	\$ 10,041,573	\$ 10,355,167
Debt as a Percentage of Personal Income (1)	3.0%	3.3%	3.5%	3.9%	4.1%	4.4%
Amount of Debt per Capita (1)	\$ 1,263	\$ 1,354	\$ 1,397	\$ 1,492	\$ 1,518	\$ 1,582

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 2018 contains data for the calendar year ending December 31, 2017.
- (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

	2012	2011	2010	2009
\$	3,593,420	\$ 3,529,115	\$ 3,522,605	\$ 3,251,580
	335,230	392,495	304,480	329,650
	2,495,825	2,611,255	2,571,125	1,649,870
	391,184	400,540	412,919	236,125
	177	245	901	6,343
	55,666	59,891	60,712	42,668
	396,465	342,602	334,721	285,613
	(813)	(1,221)	(5,197)	(9,171)
	<u>7,267,154</u>	<u>7,334,922</u>	<u>7,202,266</u>	<u>5,792,678</u>
	1,942,755	1,742,125	1,692,825	1,239,675
	756,980	812,706	840,719	872,829
	163,637	167,841	171,448	175,453
	8,397	10,511	13,043	16,418
	12,643	292	360	674
	87,993	41,393	39,705	43,112
	(33,391)	(20,875)	(23,100)	(25,294)
	<u>2,939,014</u>	<u>2,753,993</u>	<u>2,735,000</u>	<u>2,322,867</u>
\$	<u>10,206,168</u>	<u>\$ 10,088,915</u>	<u>\$ 9,937,266</u>	<u>\$ 8,115,545</u>
	4.5%	4.7%	4.7%	3.6%
\$	1,579	\$ 1,575	\$ 1,567	\$ 1,292

STATE OF ARIZONA
SCHEDULE 11
LEGAL DEBT MARGIN INFORMATION
ARIZONA STATE UNIVERSITY
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018
(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
2018	\$ 2,520,000	\$ 201,600	\$ 113,400	\$ 88,200	4.50%
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

- (1) For fiscal years 2009 through 2018, projections are based upon the University's fiscal years 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, 2018-2020, 2019-2021, and 2020-2022 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, 2018
(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
2018	\$ 2,034,000	\$ 162,720	\$ 101,700	\$ 61,020	5.00%
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

- (1) For fiscal years 2009 through 2018, projections are based upon the University's fiscal years 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, 2018-2020, 2019-2021, and 2020-2022 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, 2018
(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
2018	\$ 591,304	\$ 47,304	\$ 27,200	\$ 20,104	4.60%
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

- (1) For fiscal years 2009 through 2018, projections are based upon the University's fiscal years 2011-2013, 2012-2014, 2013-2015, 2014-2016, 2015-2017, 2016-2018, 2017-2019, 2018-2020, 2019-2021, and 2020-2022 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, 2018
(Expressed in Thousands)

Fiscal Year	(1) (2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2018	\$ 624,919	\$ 76,125	\$ 68,104	\$ 144,229	4.33
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

- (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, 2018
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2018	\$ 290,949	\$ 68,270	\$ 31,411	\$ 99,681	2.92
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

(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, 2018
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	(2) Debt Service			Coverage
		Principal	Interest	Total	
2018	\$ 712,904	\$ 60,955	\$ 3,248	\$ 64,203	11.10
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

(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, 2018
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2018	\$ 63,929	\$ 22,190	\$ 1,110	\$ 23,300	2.74
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

(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 EIGHT FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Fiscal Year	(2) Pledged Revenue	Debt Service			Coverage
		Principal	Interest	Total	
2018	\$ 207,505	\$ 21,025	\$ 16,476	\$ 37,501	5.53
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, 2018
(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenue	Debt Service				Coverage
		Principal	Interest	Net Payments (Receipts) On Swap Agreements	Total	
2018	\$ 1,647,622	\$ 36,065	\$ 59,178	\$ 1,901	\$ 97,144	16.96
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

(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, 2018
(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	
2018	\$ 1,752,904	\$ 1,618,246	\$ 134,658	\$ 34,725	\$ 51,893	\$ 86,618	1.55
2017	1,721,399	1,490,565	230,834	33,080	49,394	82,474	2.80
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

(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, 2018
(Expressed in Thousands)

Fiscal Year	(1), (2), (3) Gross Revenues	Debt Service			Coverage
		Principal	Interest	Total	
2018	\$ 355,778	\$ 12,175	\$ 22,677	\$ 34,852	10.21
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

- (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 December 31	Population (1,3)	Personal Income (3) (in thousands)	Per Capita Personal (2) Income	Unemployment Rate (4)
2017	7,016,270	\$ 296,648,898	\$ 42,280	4.6
2016	6,908,642	280,988,093	40,672	4.9
2015	6,802,262	270,806,695	39,811	5.4
2014	6,706,435	257,066,980	38,331	6.1
2013	6,616,124	242,571,877	36,664	7.0
2012	6,544,211	236,455,566	36,132	7.7
2011	6,465,488	225,853,155	34,932	8.5
2010	6,407,002	215,012,419	33,559	9.6
2009	6,343,154	211,397,715	33,327	10.6
2008	6,280,362	223,221,865	35,543	7.8

- (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, 2017 (1)			Calendar Year Ended December 31, 2008		
	Full-Time Count of Employees	Rank	Percentage of Total State Employment	Full-Time Equivalent Employees	Rank	Percentage of Total State Employment
State of Arizona	36,310	1	1.10%	50,936	1	1.72%
Banner Health	34,776	2	1.05	23,100	3	0.78
Wal-Mart Stores, Inc.	34,090	3	1.03	32,814	2	1.11
Wells Fargo & Co.	14,818	4	0.45	14,000	6	0.47
City of Phoenix	13,776	5	0.42	17,068	4	0.58
Maricopa County	12,939	6	0.39	14,014	5	0.47
Arizona State University	12,715	7	0.38	13,005	7	0.44
HonorHealth	11,296	8	0.34	—	—	—
Dignity Health	11,182	9	0.34	—	—	—
Intel Corp.	11,000	10	0.33	—	—	—
Honeywell Aerospace	—	—	—	12,600	8	0.43
Raytheon Missile Systems	—	—	—	11,539	9	0.39
University of Arizona	—	—	—	10,575	10	0.36
Total	<u>192,902</u>		<u>5.83%</u>	<u>199,651</u>		<u>6.75%</u>

(1) Beginning with Calendar Year December 31, 2017, the Phoenix Business Journal has requested total full-time and part-time employee counts from employers (the part-time employee counts are not reported in this schedule). Previously, the full-time equivalent totals were requested.

Source: Phoenix Business Journal, Book of Lists 2018 and the Arizona State University CAFR 2018.

STATE OF ARIZONA
SCHEDULE 24
STATE EMPLOYEES BY FUNCTION (1)
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018

	Fiscal Year					
	2018	2017	2016	2015	2014	2013
FULL-TIME EQUIVALENT EMPLOYEES						
General government:						
Lottery	98.8	98.8	98.8	98.8	98.8	97.8
Arizona State Retirement System	250.9	250.9	250.9	246.9	246.9	233.9
Department of Revenue	880.8	880.8	880.8	880.8	861.8	860.3
All other	2,321.4	2,280.4	2,331.6	2,308.6	2,229.6	2,214.4
Health and welfare:						
Department of Economic Security	4,289.4	4,218.0	4,147.7	3,882.6	5,654.1	5,453.5
Department of Child Safety	3,193.1	3,057.1	3,057.1	3,045.1	—	—
Arizona Health Care Cost Containment System	2,326.3	2,326.3	2,214.3	2,208.3	2,217.3	2,217.3
Department of Health Services	1,065.5	1,036.5	1,176.7	1,176.7	1,176.7	1,176.7
All other	959.6	961.6	961.6	949.6	946.6	946.6
Inspection and regulation	1,563.7	1,651.4	1,656.4	1,650.4	1,643.9	1,649.8
Education:						
Universities	17,239.3	16,721.0	15,635.7	15,635.7	15,607.7	15,478.7
All other	844.9	843.9	843.9	840.9	838.9	834.4
Protection and safety:						
Department of Corrections	9,541.0	9,540.0	9,534.0	9,534.0	9,384.0	10,118.2
Department of Juvenile Corrections	738.5	738.5	738.5	738.5	738.5	738.5
Department of Public Safety	1,945.7	1,908.7	1,907.7	1,907.7	1,904.7	1,903.7
All other	98.6	98.6	98.6	97.6	95.6	90.1
Department of Transportation	4,552.0	4,552.0	4,548.0	4,548.0	4,548.0	4,548.0
Natural resources	795.2	733.5	733.5	730.5	716.5	716.5
Total	52,704.7	51,898.0	50,815.8	50,480.7	48,909.6	49,278.4

- (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

2012	2011	2010	2009
104.0	104.0	104.0	110.0
236.0	236.0	236.0	236.0
935.0	935.0	863.0	1,164.0
2,427.6	2,646.5	2,746.5	2,989.2
3,726.0	3,726.0	4,201.0	4,201.0
—	—	—	—
1,407.3	1,423.0	1,484.0	1,635.8
1,513.3	1,513.3	1,538.6	1,699.1
1,098.5	954.5	966.5	981.5
1,801.2	1,807.7	1,820.7	1,943.1
16,964.2	15,754.2	15,664.5	17,353.5
886.5	896.0	972.4	1,003.4
10,015.2	10,015.2	9,755.9	9,932.5
1,001.7	1,001.7	1,050.7	1,163.7
2,139.8	2,081.8	2,099.8	2,114.8
112.6	117.9	118.4	134.9
4,548.0	4,548.0	4,548.0	4,748.0
930.2	937.2	956.7	1,009.7
49,847.1	48,698.0	49,126.7	52,420.2

STATE OF ARIZONA
SCHEDULE 25
OPERATING INDICATORS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS (1)
FISCAL YEAR ENDED JUNE 30, 2018

	Fiscal Year						
	2018	2017	2016	2015	2014	2013	2012
FUNCTIONS/PROGRAMS							
General government:							
Number of tax returns received (in millions)	6.4	6.0	5.9	5.7	5.7	5.5	5.4
Health and welfare:							
Arizona Health Care Cost Containment System membership (2)	1,849,093	1,922,724	1,849,578	1,709,550	1,508,690	1,318,650	1,314,210
Average monthly number of recipients of temporary assistance for needy families	N/A	18,762	22,171	27,272	32,888	39,050	39,194
Average monthly number of persons receiving food stamp benefits	N/A	946,184	980,536	1,027,845	1,070,674	1,116,068	1,123,068
Inspection and regulation:							
Nonfatal occupational injuries and illnesses:							
Total recordable cases (in thousands) (3)	67.2	64.4	65.0	65.4	70.6	66.5	67.9
Incident rate per 100 full-time workers (3)	3.0	3.1	3.1	3.2	3.5	3.4	3.5
Education:							
Public school enrollment, grades K-12 (4)	1,093,867	1,110,425	1,105,592	1,098,701	1,084,276	1,077,703	1,066,740
Protection and safety:							
Number of miles patrolled by the Highway Patrol	19,976,488	18,771,511	19,843,962	19,280,016	19,222,811	18,914,572	19,465,944
State prison adult inmate population	42,113	42,200	42,902	42,611	41,773	40,273	39,877
Transportation:							
Number of registered vehicles (5)	8,518,715	8,247,514	7,970,946	7,694,309	7,453,046	7,180,797	6,823,906
Number of driver licenses issued (6)	5,285,723	5,165,719	5,083,085	4,979,520	1,188,903	1,159,695	1,184,630
Natural resources:							
Game and Fish Department's license and tag sales (7)	N/A	519,555	524,781	726,285	822,923	848,617	815,488
Universities:							
University full-time equivalent students (8)	170,861	165,536	158,681	148,819	141,264	136,884	134,051
Unemployment compensation:							
Number of initial unemployment claims filed	214,590	223,084	223,141	229,770	257,951	261,418	288,097
Industrial Commission special fund:							
No-insurance awards issued	1,030	1,112	1,982	1,599	1,303	1,618	1,365
Number of vocational rehabilitation awards issued	65	65	111	125	170	136	125
Lottery:							
Total lottery sales (in millions)	\$ 981.2	\$ 852.0	\$ 870.9	\$ 750.0	\$ 723.9	\$ 692.9	\$ 646.7
Other business-type activities:							
Arizona Health Care Cost Containment System's Healthcare Group membership (9)	—	—	—	—	—	6,370	7,080

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 2018 contains data for the calendar year ending December 31, 2017. 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 2018 contains data from the October 1, 2017 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 2018 contains data for the calendar year ending December 31, 2017. 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 2018 contains data for the fall 2017 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		
2011	2010	2009
5.4	5.2	5.7
1,392,810	1,392,420	1,282,910
44,842	82,127	83,969
1,049,522	986,413	752,772
66.4	75.2	84.0
3.5	3.7	3.9
1,062,200	1,068,987	1,062,618
19,953,766	21,275,292	21,987,920
40,181	40,477	39,628
6,839,659	6,740,536	6,692,834
1,196,675	1,241,977	1,246,358
826,385	874,442	874,363
129,653	122,734	118,743
311,472	363,189	396,755
882	1,781	2,244
132	128	103
\$ 583.5	\$ 551.5	\$ 484.5
8,260	10,760	14,560

STATE OF ARIZONA
SCHEDULE 26
CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS
FISCAL YEAR ENDED JUNE 30, 2018

FUNCTIONS/PROGRAMS	Fiscal Year						
	2018	2017	2016	2015	2014	2013	2012
Protection and safety:							
Number of adult prison facilities (2)	10	10	10	10	10	10	10
Transportation:							
Public road mileage (center lane miles) (1)	6,775	6,780	6,822	6,800	6,800	6,751	6,751
Number of bridges (1)	4,855	4,810	4,858	4,798	4,787	4,754	4,754
Natural resources:							
State Trust acres	9,215,392	9,215,795	9,216,213	9,217,704	9,223,617	9,223,873	9,302,256
Universities:							
Number of facilities (3)	1,251	1,267	1,268	1,258	1,212	1,705	1,711
Gross square feet (in thousands) (3)	48,248	47,437	44,665	46,054	44,658	41,141	39,933

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		
2011	2010	2009
10	10	10
6,722	6,789	6,753
4,741	4,700	4,648
9,252,495	9,258,071	9,259,296
1,740	1,737	1,670
37,967	37,589	37,186

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the Department of Administration, General Accounting Office, Financial Reporting Section:

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