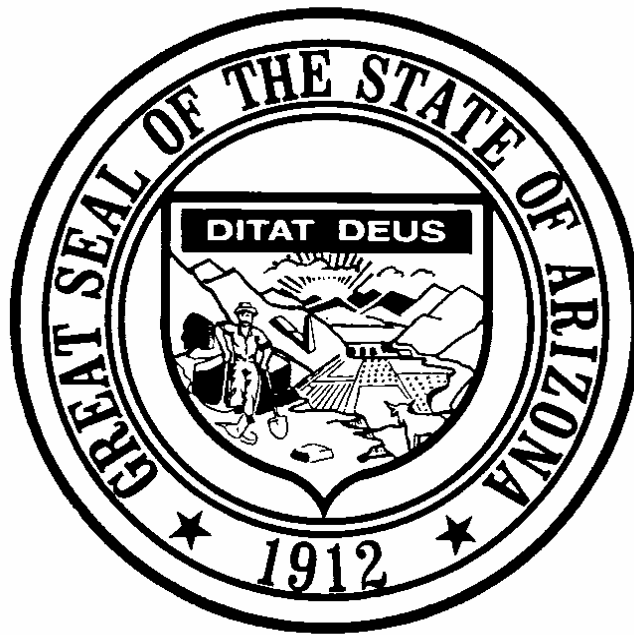


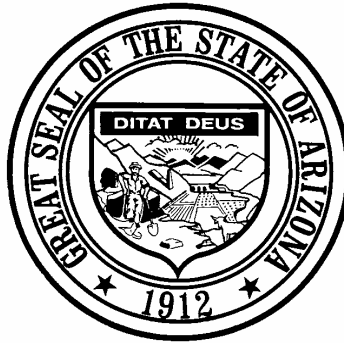
# STATE OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004



**Janet Napolitano**  
**GOVERNOR**



**PREPARED BY  
ARIZONA DEPARTMENT OF ADMINISTRATION  
FINANCIAL SERVICES DIVISION  
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
Arizona State Government Organization .....	8
Principal State Officials .....	9

**FINANCIAL SECTION**

<b>INDEPENDENT AUDITORS' REPORT</b> .....	15
---	----

<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	21
---	----

**BASIC FINANCIAL STATEMENTS**

**Government-Wide Financial Statements:**

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

**Governmental Fund Financial Statements:**

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

**Proprietary Fund Financial Statements:**

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

**Fiduciary Fund Financial Statements:**

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

<b>Notes to the Financial Statements</b> .....	62
--	----

**REQUIRED SUPPLEMENTARY INFORMATION**

Budgetary Comparison Schedule, Expenditures – General Fund .....	125
Budgetary Comparison Schedule, Expenditures – Transportation and Aviation Planning, Highway Maintenance and Safety Fund .....	140
Notes to Required Supplementary Information – Budgetary Comparison Schedules .....	142
Infrastructure Assets .....	145
Agent Retirement Plans' Funding Progress .....	150

STATE OF ARIZONA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT

**TABLE OF CONTENTS (CONTINUED)**

**FINANCIAL SECTION - CONCLUDED**

**COMBINING FINANCIAL STATEMENTS AND SCHEDULES**

Page

**Non-major Governmental Funds:**

Combining Balance Sheet .....	154
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	155

*Non-major Special Revenue Funds:*

Combining Balance Sheet .....	158
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	160

*Non-major Debt Service Funds:*

Combining Balance Sheet .....	164
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	166

*Non-major Capital Projects Funds:*

Combining Balance Sheet .....	170
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	171

**Non-major Proprietary Funds:**

*Non-major Enterprise Funds:*

Combining Statement of Net Assets .....	174
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets .....	176
Combining Statement of Cash Flows .....	178

*Internal Service Funds:*

Combining Statement of Net Assets .....	182
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets .....	184
Combining Statement of Cash Flows .....	186

**Fiduciary Funds:**

*Pension Trust Funds:*

Combining Statement of Fiduciary Net Assets .....	190
Combining Statement of Changes in Fiduciary Net Assets .....	191

*Investment Trust Funds:*

Combining Statement of Fiduciary Net Assets .....	194
Combining Statement of Changes in Fiduciary Net Assets .....	195

*Agency Funds:*

Combining Statement of Assets and Liabilities .....	199
Combining Statement of Changes in Assets and Liabilities .....	200

Budgetary Comparison Schedule, Expenditures - Other Governmental Funds .....	205
--	-----

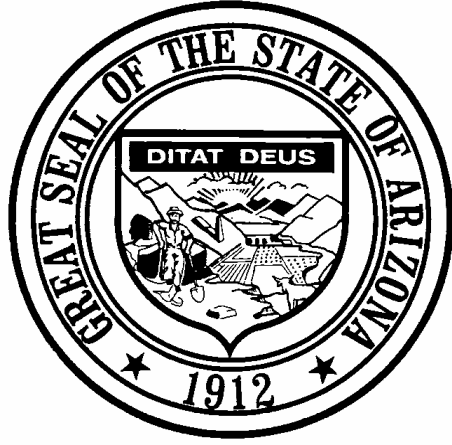
STATE OF ARIZONA  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**TABLE OF CONTENTS (CONCLUDED)**

**STATISTICAL SECTION**

(Not Covered by the Independent Auditors' Report)

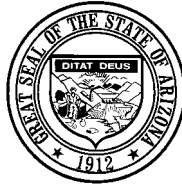
	Page
Revenues by Source – All Governmental Fund Types for the Last Ten Fiscal Years.....	217
Expenditures by Function – All Governmental Fund Types for the Last Ten Fiscal Years .....	217
Property Tax Levies, Collections, Taxable Property Assessed and Estimated Actual Value for the Last Ten Property Tax Years .....	218
Highway Construction Revenue Bond Coverage for the Last Ten Fiscal Years .....	218
Maricopa County Road Construction Revenue Bond Coverage for the Last Ten Fiscal Years .....	219
Arizona State University Revenue Bond Coverage for the Last Ten Fiscal Years.....	219
Northern Arizona University Revenue Bond Coverage for the Last Ten Fiscal Years .....	220
University of Arizona Revenue Bond Coverage for the Last Ten Fiscal Years .....	220
Economic Indicators for the Last Ten Calendar Years .....	221
Major Private Employers for the Fiscal Year Ended June 30, 2004.....	221
Population by County for the Last Ten Fiscal Years .....	222
Schedule of Bank and Savings and Loan Deposits for the Last Ten Fiscal Years .....	222
Assessed Value of New Commercial and Residential Construction for the Last Ten Calendar Years .....	223
Public School Enrollment - Grades K-12 for the Last Ten Academic Years.....	223
Average State Prison Adult Inmate Population for the Last Ten Fiscal Years .....	224
Public Higher Education Institutions' Full-Time Equivalent Fall Enrollment for the Last Ten Years.....	224



# INTRODUCTORY SECTION







**JANET NAPOLITANO**  
GOVERNOR

**BETSEY BAYLESS**  
DIRECTOR

**ARIZONA DEPARTMENT OF ADMINISTRATION  
OFFICE OF THE DIRECTOR**

100 NORTH 15<sup>th</sup> AVENUE • SUITE 401  
PHOENIX, ARIZONA 85007  
Phone: (602) 542-1500

February 11, 2005

The Honorable Janet Napolitano  
Governor of the State of Arizona,  
Members of the Legislature, 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, 2004. Responsibility for the accuracy of data, completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the major and non-major funds of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

The report is presented in three sections: Introductory, Financial, and Statistical.

The **Introductory Section** includes this Letter of Transmittal, the State's organizational chart and a list of principal State officials.

The **Financial Section** includes the State Auditor General's Independent Auditors' Report, Management's Discussion and Analysis (MD&A) and the basic financial statements (which include the government-wide financial statements, the fund financial statements and the notes to the financial statements). The financial section also includes Required Supplementary Information (RSI), which includes budgetary comparison schedules, infrastructure condition and maintenance data, and agent retirement plans' funding progress. In addition, the financial section includes other supplemental financial data, which includes combining financial statements.

The **Statistical Section** includes selected financial, economic, and demographic data.

U.S. generally accepted accounting principles require that management provides a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the 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.

**FINANCIAL REPORTING ENTITY**

The accompanying CAFR includes all funds of the State of Arizona (primary government), as well as its component units. In fiscal year 2004, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. Statement No. 39 provides additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units, based on the nature and significance of their relationship with the primary government. Based on this guidance, the State has added component units affiliated with Universities (i.e., foundations and financing authorities) that prepare financial statements in conformity with U.S. generally accepted accounting principles as adopted by the Financial Accounting Standards Board (FASB).

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 GASB standards are reported in a separate column in the government-wide financial statements. Discretely presented component units prepared in accordance with FASB standards 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 GASB.

The criteria for inclusion in the reporting entity and presentation are defined by the Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standards Board, (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.

## **ECONOMIC CONDITION AND OUTLOOK**

*The following economic summary is excerpted from the Arizona Department of Economic Security's Arizona's Workforce, September 2, 2004.*

Arizona's Department of Economic Security, Research Administration's forecast update calls for Arizona's economy to continue expanding through the forecast period of 2004-05. Essentially unchanged from the original forecast, Arizona's non-farm jobs are forecast to grow by 2.4% in 2004 and 3.0% in 2005. Over the two-year period, non-farm job growth is forecast to total more than 125,000.

Meanwhile, the national economy is forecast to show continued improvement during the 2004-05 period. According to Global Insight, non-farm jobs at the national level are forecast to grow at annual rates of 1.0% in 2004 and 1.7% in 2005.

During the forecast period, some issues will continue to capture attention and restrain the growth of the economy. Slower expansion is the result of, first, higher-than-anticipated energy costs that have eroded consumer purchasing power and elevated business costs. Second, firms have been reluctant to hire new workers because of the continued upward spiral of health care costs and advances in productivity. Third, real growth in wages has been slow because of weak hiring that has maintained slack labor markets.

While the overall economy in Arizona is expected to grow at essentially the same pace as forecasted in April, some industries are projected to expand at a more rapid rate. Construction has the largest upward revision with a projected increase of more than 28,000 jobs over the forecast period as compared to an original increase of 9,000 jobs. A rising population level, coupled with affordable housing and low interest rates, has provided a stronger-than-expected stimulus to construction job growth.

Educational and health services are also forecast to have slightly larger job gains with a projected increase of more than 29,000 jobs over the forecast period. Growth in Arizona's communities is driving the employment increases in this industry.

Natural resources and mining is now projected to have fewer job reductions, a loss of only 100 jobs, with the revised forecast. Gradual improvements in global demand for industrial materials and rising energy costs have increased the need to use local sources of raw materials.

However, the forecast update has decreased the rate of employment growth for most other industries in the State. Job losses deepened in manufacturing to a total decrease of 4,500 jobs over the two-year period while only 600 jobs were lost in the earlier forecast.

Trade, transportation and utilities are projected to gain more than 19,000 jobs. Higher energy prices and stagnant wages have limited the ability of consumers to increase their spending. Rising consumer spending would have generated greater levels of demand required to have higher rates of job growth in this industry group.

Projected losses in information technology have increased to a total of more than 3,300 jobs. The original forecast had a recovery beginning in 2005. However, revised projections have losses in both years. The factors of outsourcing, overcapacity and enhanced productivity are expected to continue limiting job growth in this industry.

Financial activities is forecast to have fewer jobs created as a result of a slower pace of expansion in the overall economy. Some of the fast-growing sectors related to mortgage financing and real estate are expected to have more consolidation over this period.

Professional and business services are projected to add more than 23,000 jobs. The attempt of firms to control rising costs with the outsourcing of many functions, especially labor, is expected to create new jobs in this industry group.

Job gains in leisure and hospitality are expected to number more than 10,000 according to the forecast update. Despite stretched budgets, consumers and businesses are still expected to spend on travel, dining-out and recreation. Improvement in this tourism-related industry is anticipated in Arizona as the economies of other states continue to expand.

Employment growth in other services is projected to increase by more than 3,600 jobs.

Government is forecast to gain more than 13,000 jobs as a result of an increasing population creating greater demand for public services such as education, police and fire.

In conclusion, Arizona's economy has been adding jobs for nearly two years at a rate that ranks it among the top ten states in the nation, in terms of annual percentage growth. While the nation has shown six consecutive months of over-the-year increases, not all states have yet realized job creation. For those states now adding jobs, the pace of recovery has been slow. Research Administration is convinced that Arizona's economy will continue on a path of modest growth that will accelerate well into 2005.

## **MAJOR INITIATIVES**

When Governor Napolitano took office in January 2003, the State was facing an unprecedented fiscal crisis. The FY2004 deficit was projected to be \$1 billion, or 14% of projected expenditures. Arizona, like most other states, was experiencing dramatic revenue shortfalls, and projected 2.3% negative revenue growth in FY2003, after experiencing an 11.1% decline from FY2001 to FY2002. Of further concern, was that there was no unified voice among economists on a future fiscal recovery. Under these circumstances, Governor Napolitano immediately began the task of developing a plan to address the projected deficit. The Governor's approach was a multi-faceted one that examined all the key drivers of the State's budget. In addition, she established key principles that she deemed essential to the State's most vulnerable citizens and necessary for the State's prosperity when the inevitable economic recovery began. Outlined below are the actions taken and the principles specified by the Governor as the solution to the FY2004 deficit was developed:

- Preserve the core functions of State government and continue the commitment to excellence in the quality of essential services and the manner in which they are provided.
- Apply spending reductions with specificity, agency by agency, program by program. The FY2004 Executive Budget only considered specific operating budget reductions, not across-the-board cuts.
- Programs and services that directly benefit children – including, but not limited to K-12 education – are immune to spending reductions. A degradation of services to children would only give rise to future societal burdens that will confound future planning.
- Universities and community colleges are crucial to economic development – a key ingredient to fiscal health – and are protected from spending cuts.
- Make appropriate use of accepted cost-shifting methods to address immediate needs until the current fiscal crisis has passed.
- Take full advantage of federal funds available to the State.

**SERVICES PROVIDED BY THE STATE**

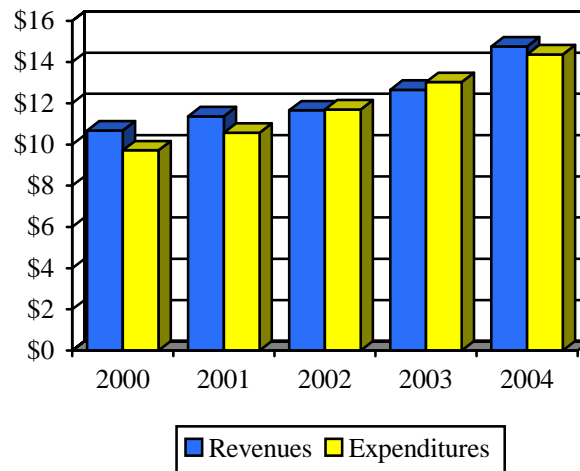
The services provided by the State are administered through various agencies, departments, boards, commissions and institutions of higher learning. These services include: (1) General Government, (2) Health and Welfare, (3) Inspection and Regulation, (4) Education, (5) Protection and Safety, (6) Transportation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

**GENERAL FUND BALANCE**

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

Graph 1

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

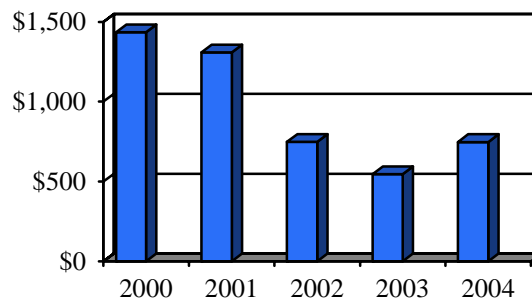


The General Fund ended the June 30, 2004, fiscal year with \$561.0 million in unreserved fund balance and a \$185.6 million reserved fund balance for a total fund balance of \$746.6 million. This compares to the previous year's total fund balance of \$546.4 million. Included in the \$185.6 million reserved fund balance is \$13.5 million for the Budget Stabilization Fund. The Budget Stabilization Fund is a form of "Rainy Day Fund" established by the Legislature in 1991.

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

Graph 2

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



## **BUDGETARY CONTROLS**

Budgetary control is maintained through legislative appropriation and the executive branch allotment process. The Governor is required to submit an annual budget to the Legislature. The budget is legally required to be adopted through passage of appropriation bills by the Legislature and approval by the Governor. The appropriated funds are controlled by the executive branch through an allotment process. This process 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 items. Capital outlay appropriations and their encumbrances continue from year to year. The State's budgetary policies are explained in detail in the Required Supplementary Information (RSI).

## **INTERNAL CONTROLS**

The State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with U.S. generally accepted accounting principles. 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.

## **CASH MANAGEMENT**

The responsibility for cash management of the State is shared by the Office of the Treasurer (Treasurer) and the General Accounting Office of the Department of Administration, Financial Services Division (GAO). The Treasurer is responsible for the depository, custodial and investment functions of cash. The GAO is responsible for drawing down monies available for State functions and the expenditure or disbursement of those monies.

The State requires that Treasurer's deposits and investments with financial institutions be entirely covered by Federal depository insurance or alternatively collateralized with surety equal to 102% of the deposit or investment. Component units may have collateralization policies that differ from those of the Treasurer.

The Legislature has passed statutes authorizing State investments. Note 2.A. in the Notes to the Financial Statements describes these investments.

The Treasurer deposits receipts in accordance with applicable statutes and invests excess cash of the General Fund and various other funds. All interest, not otherwise apportioned by law, is deposited in the General Fund. Investment earnings for the General Fund totaled \$9.5 million for the fiscal year ended June 30, 2004.

## **PROPRIETARY OPERATIONS**

The State's Enterprise Funds are comprised of governmental and quasi-governmental agencies that provide goods and services to the public on a fee for service basis. One of the largest Enterprise Funds is the Lottery Fund. The Lottery Fund generated \$366.7 million of operating revenues and \$63.0 million of income before contributions and transfers for fiscal year 2004. The Enterprise Funds ended fiscal year 2004 with total ending net assets of \$2.507 billion for the Primary Government.

The State has Internal Service Funds, which provide a variety of services to State agencies. These include risk management, computer services, telecommunications, transportation services, and employee benefits. The operating revenues for the Internal Service Funds were \$622.0 million for fiscal year 2004.

## **FIDUCIARY FUNDS**

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations and other governments, including the four State Retirement Systems. See Note 5. in the Notes to the Financial Statements for more information on the four State Retirement Systems. The fiduciary activities are not included on the government-wide financial statements because the resources of these funds are not available to support the State's own programs.

## RISK MANAGEMENT

The State purchases property and liability coverage whenever available on reasonable terms. The State is insured by a property insurer for claims in excess of \$3.5 million, but less than \$450 million, and liability claims in excess of \$2 million for the Universities and \$7 million for all other state agencies, but less than \$107 million. The State also maintains first dollar aircraft coverage up to \$200 million. Other purchased coverages include fidelity, foreign liability, medical malpractice (limited to the University of Arizona's medical professional staff), and employment practices. The State's self-insurance fund provides property and liability coverage for claims less than or in excess of this coverage, or whenever coverage, such as workers' compensation and medical malpractice for non-University of Arizona professional staff, is unavailable on reasonable terms.

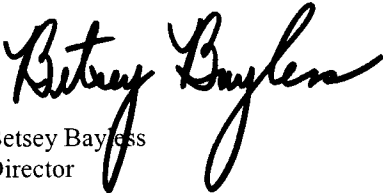
The State pays self-insurance losses, defense costs, premiums and administrative costs from an appropriated fund which all of the State's agencies participate in. Total costs (excluding the cost of administering the program) have risen from approximately \$15.3 million in fiscal year 1988 to approximately \$71.6 million in fiscal year 2004. Yearly appropriations have also increased from approximately \$27.7 million in fiscal year 1988 to approximately \$88.6 million in fiscal year 2004 to meet rising losses and claims-related expenses. Although there are no assurances, historically the Legislature has appropriated sufficient funds to cover all costs.


## INDEPENDENT AUDIT

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

## ACKNOWLEDGMENTS

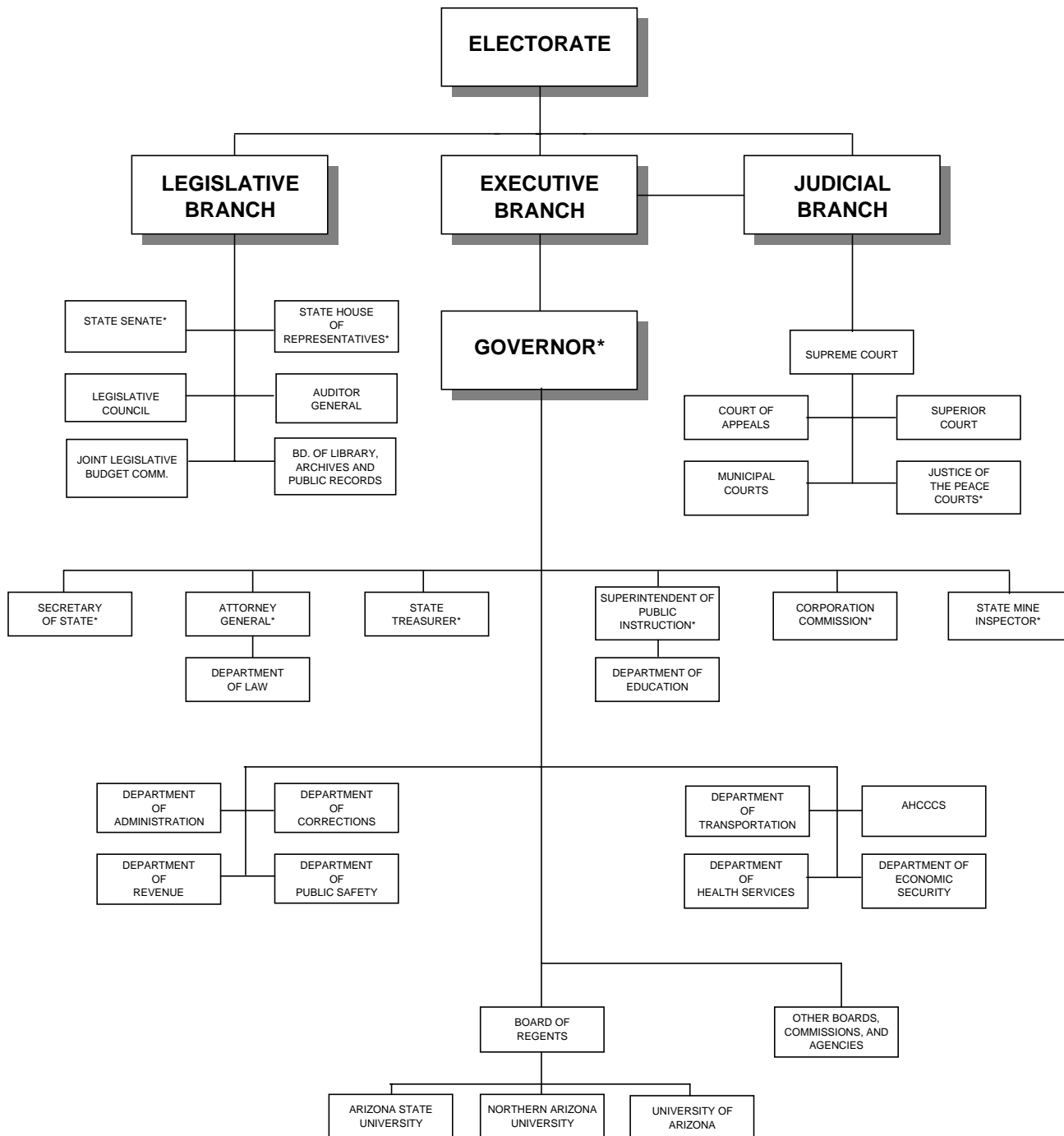
We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each State agency,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

  
Betsey Bayless  
Director

  
D. Clark Partridge  
State Comptroller

*(This page intentionally left blank)*

# ARIZONA STATE GOVERNMENT ORGANIZATION



\* ELECTED OFFICIALS



STATE OF ARIZONA  
PRINCIPAL STATE OFFICIALS  
JUNE 30, 2004

**ELECTED OFFICIALS**

Janet Napolitano, Governor

Tom Horne, Superintendent of Public Instruction

Senator Ken Bennett, President of the Senate

Marc L. Spitzer, Chairman - Corporation Commission

Representative Jake Flake, Speaker of the House

William A. Mundell, Commissioner - Corporation Commission

Janice K. Brewer, Secretary of State

Kristin K. Mayes, Commissioner - Corporation Commission

Terry Goddard, Attorney General

Mike Gleason, Commissioner - Corporation Commission

Douglas K. Martin, State Mine Inspector

Jeff Hatch-Miller, Commissioner - Corporation Commission

David A. Petersen, State Treasurer

**APPOINTED OFFICIALS**

Executive Officials

Betsey Bayless, Director - Department of Administration

Legislative Officials

Michael E. Braun, Executive Director - Legislative Council

Dora B. Schriro, Director - Department of Corrections

Richard Stavneak, Director - Joint Legislative Budget Committee

David A. Berns, Director - Department of Economic Security

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

J. Elliot Hibbs, Director - Department of Revenue

Gladys Ann Wells, Director - Board of Library, Archives and Public Records

Dennis A. Garrett, Director - Department of Public Safety

University Officials

Catherine R. Eden, Ph.D., Director - Department of Health Services

Michael M. Crow, President - Arizona State University

Anthony D. Rodgers, Director - Arizona Health Care Cost Containment System

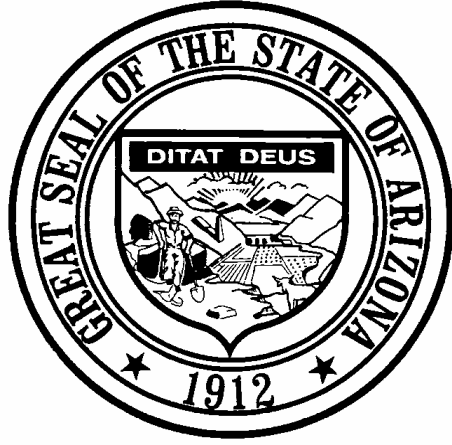
Dr. John Denis Haeger, President - Northern Arizona University

Victor Mendez, Director - Department of Transportation

Peter W. Likins, President - University of Arizona

Judicial Officials

Charles E. Jones, Chief Justice - Supreme Court



# FINANCIAL SECTION

**FINANCIAL SECTION**

INDEPENDENT  
AUDITORS' REPORT

**INDEPENDENT AUDITORS' REPORT**



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Janet Napolitano, Governor  
State of Arizona

The Honorable Ken Bennett, President  
Arizona State Senate

The Honorable James Weiers, Speaker  
Arizona House of Representatives

The Honorable Charles E. Jones, Chief Justice  
Arizona Supreme Court

We have audited the accompanying financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain departments and the component units, which account for the following percentages of the assets and revenues of the opinion units affected:

Opinion Unit/Department	Assets	Revenues
<u>Government-wide Statements</u>		
Governmental activities:		
Arizona Health Care Cost Containment System	2.02%	16.75%
Department of Transportation	69.00%	15.74%
Business-type activities:		
Lottery Department	1.16%	11.76%
Arizona Health Care Cost Containment System	.17%	1.08%
Department of Transportation	4.77%	.46%
Aggregate discretely presented component units:		
Component Units	100.00%	100.00%
Universities— affiliated Component Units	100.00%	100.00%

Opinion Unit/Department	Assets	Revenues
<u>Fund Statements</u>		
General Fund:		
Arizona Health Care Cost Containment System	10.33%	20.32%
Transportation and Aviation Planning, Highway Maintenance and Safety Fund:		
Department of Transportation	100.00%	100.00%
Lottery Fund:		
Lottery Department	100.00%	100.00%
Aggregate Remaining Fund Information:		
Arizona Health Care Cost Containment System	.09%	2.44%
Department of Transportation	0.96%	11.34%
Arizona State Retirement System	66.45%	52.06%
Public Safety Personnel Retirement System	12.85%	8.92%
Corrections Officer Retirement Plan	2.16%	1.73%
Elected Officials' Retirement Plan	.87%	.63%

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

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the State of Arizona as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 8, the State's Arizona State University increased its capitalization threshold for equipment, works of art, and historical treasures, which represents a change in the application of an accounting principle. Also described in Notes 1 and 8, respectively, the State implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* for the year ended June 30, 2004. GASB Statement No.



39 requires reporting as a component unit those organizations that raise and hold economic resources for the direct benefit of the State or its constituents. GASB Technical Bulletin No. 2004-1 prescribes when to recognize revenues and related receivables for tobacco settlements. Also, as described in Note 16, beginning in fiscal year 2004, the State Compensation Fund, that was previously reported in the State's basic financial statements as a discretely presented component unit is no longer financially accountable to the State, and therefore, is not reported in the State's basic financial statements. This change constitutes a change in the State's reporting entity.

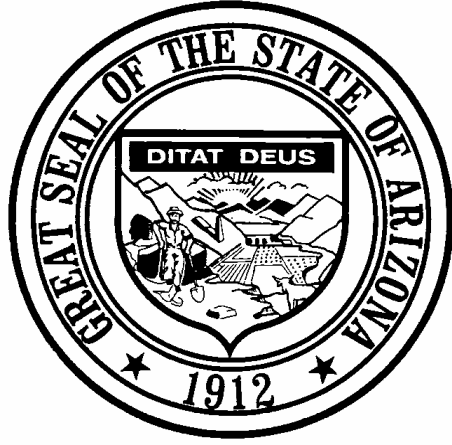
The Management's Discussion and Analysis on pages 21 through 33, the Budgetary Comparison Schedules on pages 125 through 144, the Infrastructure Assets information on pages 145 through 149, and the Agent Retirement Plans' Funding Progress on page 150 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors, did not audit the information and express no opinion on it.

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

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

Debbie Davenport  
Auditor General

February 11, 2005



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, 2004. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section. The completeness and fairness of the following information is the responsibility of the State's officials and management.

### FINANCIAL HIGHLIGHTS

#### Government-Wide:

- The assets of the State exceeded liabilities at the close of the fiscal year by \$15.2 billion (reported as *net assets*). Of this amount, a \$496 million deficit for (*unrestricted net assets*) exists at fiscal year end, \$3.3 billion is restricted for specific purposes (*restricted net assets*), and \$12.4 billion is invested in capital assets, net of related debt.
- The State's total net assets increased in fiscal year 2004 by \$473 million. Net assets of governmental activities increased by \$680 million, while net assets of the business-type activities decreased by \$207 million.

#### Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.1 billion, an increase of \$443 million from the beginning of the year. Approximately 33% of the combined fund balances, \$1.0 billion is available to meet the State's current and future needs (*unreserved fund balance*).
- As of the close of the fiscal year, unreserved fund balance for the General Fund was \$561 million, or 4%, of total General Fund expenditures.
- The enterprise funds reported net assets at year-end of \$2.5 billion, a decrease of \$205 million during the year.
- The Land Endowments Fund reported fund balance at year-end of \$1.4 billion, an increase of \$238 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.

#### Long-term Debt:

- The State's total long-term primary government debt rose during the fiscal year to \$5.2 billion, an increase of \$1.0 billion (or 23%). During the year, the State issued revenue bonds and certificates of participation of \$689 million and \$550 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 23**.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

**The Statement of Activities (pages 42-44)** presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change

occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both government-wide statements report three activities:

- *Governmental Activities* – Most of the State’s basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary and the general operations of the Executive departments fall within the governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, the State’s unemployment compensation services, Industrial Commission rehabilitation services, and the State’s three universities are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the State are financially accountable. The University Medical Center, the Arizona Power Authority, and the Water Infrastructure Finance Authority are discretely presented component units reported by the State. Additionally, in fiscal year 2004, the State implemented the GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. Statement 39 provides additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Based on this guidance, the State has added university foundations and financing authorities whose financial statements are prepared in conformity with U.S. generally accepted accounting principles as adopted by the Financial Accounting Standards Board. These organizations include the ASU Foundation, the U of A Foundation, and other non-major foundations and financing authorities. Financial statements for these organizations are presented immediately following the government-wide statements to emphasize that they are prepared in accordance with accounting standards other than those promulgated by GASB, and include a statement of financial position (**page 40**) and a statement of activities (**page 44**). See **pages 63-65 and 107-121** 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 154** 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**) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) reported on the appropriate government-wide statement.

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

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

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

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

**Fiduciary fund financial statements can be found on pages 60-61 of this report.**

### **Notes to the Financial Statements**

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

**The notes can be found beginning on page 62 of this report.**

### **Required Supplementary Information**

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

**Required supplementary information begins on page 125 of this report.**

### **Other Supplementary Information**

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

**Other supplementary information begins on page 154 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. The fiscal year 2003 governmental activities net assets amount has been restated for the GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. The fiscal year 2003 business-type activities net assets amount has been restated due to increasing the capitalization threshold for capital assets of one of the Universities.

These changes have not been audited and are provided to the reader for comparative purposes. See Note 4, capital assets, on **page 81** and Note 8, accounting changes and restatements, on **page 100** for additional restatement information.

State of Arizona-Primary Government  
Net Assets as of June 30, 2004 and 2003  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Primary Government Total	
	2004	2003, as restated	2004	2003, as restated	2004	2003, as restated
Current assets	\$ 2,802,208	\$ 2,528,027	\$ 1,428,582	\$ 1,372,783	\$ 4,230,790	\$ 3,900,810
Capital assets	13,389,970	12,771,929	2,379,915	2,161,439	15,769,885	14,933,368
Other noncurrent assets	2,441,674	2,017,052	1,052,549	948,245	3,494,223	2,965,297
Total assets	<u>18,633,852</u>	<u>17,317,008</u>	<u>4,861,046</u>	<u>4,482,467</u>	<u>23,494,898</u>	<u>21,799,475</u>
Current liabilities	2,212,000	1,899,039	423,720	398,035	2,635,720	2,297,074
Noncurrent liabilities	3,728,379	3,404,396	1,932,727	1,372,754	5,661,106	4,777,150
Total liabilities	<u>5,940,379</u>	<u>5,303,435</u>	<u>2,356,447</u>	<u>1,770,789</u>	<u>8,296,826</u>	<u>7,074,224</u>
Net assets:						
Invested in capital assets, net of related debt	11,226,325	10,690,782	1,176,872	1,147,769	12,403,197	11,838,551
Restricted net assets	2,100,575	2,071,313	1,190,250	1,291,003	3,290,825	3,362,316
Unrestricted net assets	(633,427)	(748,522)	137,477	272,906	(495,950)	(475,616)
Total net assets	<u>\$ 12,693,473</u>	<u>\$ 12,013,573</u>	<u>\$ 2,504,599</u>	<u>\$ 2,711,678</u>	<u>\$ 15,198,072</u>	<u>\$ 14,725,251</u>

The largest portion of the State's net assets (82%) represents *capital assets, net of related debt* of \$12.4 billion. The State uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the State's investment in its capital assets is reported net of accumulated depreciation and related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The State's net assets also include \$3.3 billion (22%) of resources that are subject to external restrictions on how they may be used. The largest restrictions are by the federal government and State constitution for basic education funded by the Land Endowment Earnings of the Permanent Funds and unemployment insurance premiums from employers for funding the Unemployment Compensation Fund. Another major restriction is unspent debt instrument proceeds for the construction of additional capital assets.

The remaining negative balance of the State's net assets of \$496 million (approximately 4%) represents *unrestricted net assets*, including restatements of beginning net assets.

The State's net assets increased by \$473 million during the current fiscal year. This increase is primarily caused by governmental activities increases for sales taxes, income taxes, capital assets, earnings on investments and trust land sales. Governmental Activities net asset increases were reduced by Business-type Activities reductions for the Unemployment Compensation Fund and the Industrial Commission Special Fund.



State of Arizona-Primary Government  
Changes in Net Assets for Fiscal Years Ended June 30, 2004 and 2003  
(expressed in thousands)

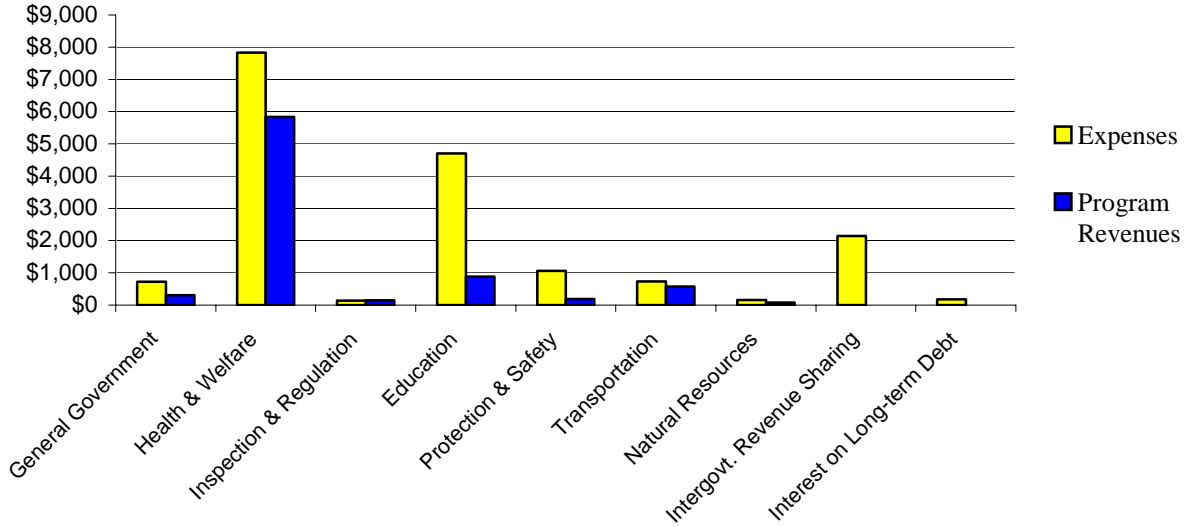
	Governmental Activities		Business-type Activities		Primary Government Total	
	2004	2003, as restated	2004	2003, as restated	2004	2003, as restated
Revenues:						
Program revenues:						
Charges for services	\$ 636,844	\$ 531,719	\$ 1,449,850	\$ 1,257,032	\$ 2,086,694	\$ 1,788,751
Operating grants and contributions	6,981,748	5,940,007	836,076	810,549	7,817,824	6,750,556
Capital grants and contributions	421,251	460,364	18,513	23,090	439,764	483,454
General revenues:						
Sales taxes	5,016,585	4,551,804	50,050	43,450	5,066,635	4,595,254
Income taxes	2,800,461	2,371,005	-	-	2,800,461	2,371,005
Tobacco taxes	223,804	-	-	-	223,804	-
Property taxes	50,455	37,470	-	-	50,455	37,470
Motor vehicle and fuel taxes	1,613,952	1,563,876	-	-	1,613,952	1,563,876
Other taxes	539,218	632,896	-	-	539,218	632,896
Unrestricted investment earnings	24,227	77,914	38,753	32,527	62,980	110,441
Unrestricted grants and contributions	8,502	7,222	-	3	8,502	7,225
Miscellaneous revenue	281,109	319,873	46,615	26,985	327,724	346,858
Gain on sale of trust land	319,517	137,563	-	-	319,517	137,563
Total revenues	18,917,673	16,631,713	2,439,857	2,193,636	21,357,530	18,825,349
Expenses:						
General government	726,525	694,173	-	-	726,525	694,173
Health and welfare	7,717,148	6,848,087	-	-	7,717,148	6,848,087
Inspection and regulation	138,281	141,673	-	-	138,281	141,673
Education	4,703,685	4,795,566	-	-	4,703,685	4,795,566
Protection and safety	1,059,047	982,839	-	-	1,059,047	982,839
Transportation	731,522	598,375	-	-	731,522	598,375
Natural resources	162,366	175,312	-	-	162,366	175,312
Intergovernmental revenue sharing	2,144,438	2,159,691	-	-	2,144,438	2,159,691
Interest on long-term debt	176,035	135,775	-	-	176,035	135,775
Universities	-	-	2,342,085	2,181,311	2,342,085	2,181,311
Unemployment compensation	-	-	397,657	455,685	397,657	455,685
Industrial Commission special fund	-	-	167,331	73,586	167,331	73,586
Lottery	-	-	303,996	263,321	303,996	263,321
Other business-type activities	-	-	109,944	107,740	109,944	107,740
Total expenses	17,559,047	16,531,491	3,321,013	3,081,643	20,880,060	19,613,134
Excess (deficiency) before contributions, special items and transfers	1,358,626	100,222	(881,156)	(888,007)	477,470	(787,785)
Contributions to permanent endowments	-	-	2,231	3,037	2,231	3,037
Special item – voluntary retirement program for faculty	-	-	(6,880)	-	(6,880)	-
Transfers	(678,726)	(665,004)	678,726	665,004	-	-
Change in net assets	679,900	(564,782)	(207,079)	(219,966)	472,821	(784,748)
Net assets - July 1, as restated	12,013,573	12,578,355	2,711,678	2,931,644	14,725,251	15,509,999
Net assets - June 30	\$ 12,693,473	\$ 12,013,573	\$ 2,504,599	\$ 2,711,678	\$ 15,198,072	\$ 14,725,251

**Change in Net Assets**

*Governmental Activities* – Net assets increased by \$680 million, or 6%. This increase is primarily attributed to the increases in earned general tax revenues. Reported sales tax and income tax revenue increased by \$465 million, or 10%, and \$429 million, or 18%, as compared to fiscal year 2003, respectively. Several key elements have led to this increase. The State has ranked in the top ten nationally in terms of annual percentage job growth for nearly two years as reported by Arizona’s Department of Economic Security, Research Administration. As a result, personal income growth has improved and consumer spending confidence is up. Furthermore, population inflows have continued to outpace outflows, fueling the expanding economy. Additionally, the State has improved its efforts in tax enforcement and exceeded its fiscal year 2003 collections by \$137 million. Another significant contributor to the net asset increase was record auction sales of \$320 million in State trust land, a \$182 million increase as compared to fiscal year 2003. Intense and competitive bidding in these auctions raised total sales prices approximately \$167 million above the appraised value of the land. Net asset increases were reduced by increases in long-term debt. The School Facilities Board issued revenue bonds in the amount of \$247 million and certificates of participation in the approximate amount of \$242 million. The debt instruments are being issued to construct or repair K through 12 schools throughout the State. Although the debt instruments are obligations of the State, the constructed and improved schools are the capital assets of the school districts, which are separate and sovereign governmental entities. For each dollar of debt proceeds expended on construction and repair of schools, the State’s governmental activities net assets are reduced by one dollar. A comparison of the cost of services by function, net of program revenues, for the State’s governmental activities is shown below for fiscal years 2004 and 2003.

	2004 Governmental Activities (expressed in thousands)	2003, as restated, Governmental Activities (expressed in thousands)
<b>Expenses, Net of Program Revenues:</b>		
General government	\$ (415,740)	\$ (452,184)
Health and welfare	(1,871,192)	(1,846,316)
Inspection and regulation	11,977	(16,142)
Education	(3,820,842)	(4,058,176)
Protection and safety	(870,240)	(830,114)
Transportation	(152,047)	6,548
Natural resources	(80,647)	(107,551)
Intergovernmental revenue sharing	(2,144,438)	(2,159,691)
Interest on long-term debt	(176,035)	(135,775)
Total Governmental Activities Expenses, Net of Program Revenues	<u>\$ (9,519,204)</u>	<u>\$ (9,599,401)</u>

**Expenses and Program Revenues  
Governmental Activities for Fiscal Year 2004  
(in millions of dollars)**



*Business-type Activities* – The net assets decreased by \$207 million, or 8%. The net assets reduction is primarily caused by the net losses of the Unemployment Compensation Fund and the Industrial Commission Special Fund of \$97 million and \$138 million, respectively. The Unemployment Compensation Fund’s fiscal year 2003 net loss amount was \$162 million. The declining rate of loss for the Unemployment Compensation Fund was primarily caused by an increase in employer assessments of \$34 million and a decrease in unemployment claims of \$58 million. The Industrial Commission’s net assets decreased \$138 million primarily due to workers’ compensation insurance carriers becoming insolvent during the year. The increase in insolvent insurers primarily increased the Industrial Commission’s expenses and long-term liabilities. As allowed by Title 23 of the Arizona Revised Statutes, the Industrial Commission has assessed the State Compensation Fund, privately owned insurance companies, and all self-insured plans that provide workers’ compensation insurance a two and one-half percent premium assessment for calendar year 2005, the largest amount currently authorized in Arizona law. The Industrial Commission had imposed no premium revenue assessments since calendar year 1992. For fiscal years 2005, 2006 and 2007 the Industrial Commission is projecting receipt of \$57 million from liquidated assets of insolvent carriers. A comparison of the cost of services by business-type, net of program revenues, for the State’s business-type activities is shown below for fiscal years 2003 and 2004.

	2004 Business-type Activities (expressed in thousands)	2003, as restated, Business-type Activities (expressed in thousands)
<b>Expenses, Net of Program Revenues:</b>		
Universities	\$ (815,629)	\$ (809,871)
Unemployment Compensation	(95,724)	(156,906)
Industrial Commission Special Fund	(162,189)	(73,586)
Lottery	62,586	58,946
Other	(5,618)	(9,555)
Total Business-Type Activities Expenses, Net of Program Revenues	<u>\$ (1,016,574)</u>	<u>\$ (990,972)</u>

## FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

**Governmental funds** – The general government functions are contained in the General, Special Revenue, Debt Service, Capital Projects and Permanent Funds. The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the State's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

### General Fund

The General Fund is the chief operating fund of the State. At June 30, 2004, unreserved fund balance of the General Fund was \$561 million, while total fund balance closed the year at \$747 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and other financing uses. Unreserved fund balance represents 4% of total expenditures and other financing uses, while total fund balance represents 5% of the same amount.

The fund balance of the State's General Fund increased by \$200 million during the fiscal year. The primary source of the increase in fund balance is from the increase of sales tax and income tax revenues. Sales tax revenues increased approximately \$370 million from fiscal year 2003, an increase of approximately 10%. Sales taxes paid by retail stores, construction contractors, restaurants and bars and utility companies increased approximately \$150 million, \$80 million, \$27 million and \$24 million, respectively, when compared to fiscal year 2003 sales tax receipts. Receipts for the sales tax "amnesty" program not collected in fiscal year 2003 totaled approximately \$14 million. Income tax revenues increased approximately \$431 million, an increase of approximately 18%. Income taxes paid by individuals increased by approximately \$212 million when compared to fiscal year 2003 individual income tax receipts. Income taxes paid by businesses increased approximately \$136 million. Receipts for individual and business income tax "amnesty" programs not collected in fiscal year 2003 totaled approximately \$57 million.

Intergovernmental revenue and health and welfare expenditures increased by \$1.1 billion, or 20%, and \$1.1 billion, or 18%, as compared to fiscal year 2003, respectively. These increases are primarily due to the rising cost of health care programs for the State's indigent population, including Title XIX Medicaid and the Title XXI State Children's Health Insurance Program. Inflationary trends for health care costs are incorporated in the rate development process for the managed care organization capitation rates. Due to substantial increases in utilization and costs for pharmacy, outpatient/ER and inpatient, the capitation rates were increased by an average of 13% for the contract period of October 2003 to September 2004. The inflation rate is indicative of medical inflation including the rising cost of pharmaceuticals. The State received additional federal grants and county funding to cover a portion of these increased costs.

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

The Transportation and Aviation Planning, Highway Maintenance and Safety Fund is responsible for repair and maintenance of existing roads, paying the debt service for roads that are built from the issuing of revenue bonds, and providing technical assistance with road construction provided by contractors hired by the Arizona Department of Transportation. Total fund balance increased approximately \$52 million during fiscal year 2004. The fund balance increase was primarily caused by a \$20 million increase in sales taxes, a \$90 million increase in motor vehicle and fuel taxes and a \$27 million decrease in intergovernmental revenues. The fiscal year 2004 collections for both sales taxes and motor vehicle and fuel taxes recorded the highest year-over-year growth since fiscal year 1999 due mainly to the improved state and national economies and population growth. The sales tax growth was primarily attributable to a significant increase in registered vehicles (236 thousand) over fiscal year 2003. The motor vehicle and fuel tax growth was primarily attributable to the increase in population, which tends to follow job growth.

### Land Endowments Fund

The fund was established when the federal government granted statehood. Both the State 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 through 12 grades. The Land Endowments Fund total fund

balance increased \$238 million during fiscal year 2004. Unrealized valuation increases for investments at fiscal year end, compared to the initial investment purchase price, were approximately \$102 million. This increase was primarily due to the rise in stock values of the S&P 500 and the S&P Mid Cap 400 Index Pools held by the State. Payments from the sale of trust land by the Land Department increased by approximately \$61 million, from \$88 million during fiscal year 2003 to \$149 million during fiscal year 2004. This increase is primarily the result of land contract payoffs that occurred for sales in prior fiscal years.

### **Proprietary funds**

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

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Budgetary Comparison Schedules for the major governmental funds are in the Required Supplementary Information section beginning on **page 125**. Differences between the original budget and the final amended budget resulted in a \$281 million increase in appropriations for the General Fund. The following comments summarize current year budgetary results:

- The General Fund appropriations increase of \$281 million is comprised primarily of 1) \$119 million of prior year obligations that are expended in the current year as allowed by §ARS 35-191; 2) \$69 million for the Department of Economic Security appropriations; 3) \$43 million for the Department of Education appropriations; 4) \$21 million for the Arizona Health Care Cost Containment System appropriations; 5) \$7 million for the Department of Health Services appropriations; and 6) a net original budget increase of \$22 million for all remaining general fund agencies. The original General Fund appropriation total was \$10.8 billion. The final General Fund appropriation total was \$11.1 billion. No State agency's budget was either increased or decreased a significant amount.
- The difference between the final budget and actual expenditures was approximately \$311 million. Of this amount, approximately \$75 million will continue as legislative multiple fiscal year spending authority for fiscal year 2005 and beyond depending upon the budgetary guidelines of the Legislature. The remaining \$236 million represents the unused portion of the State's legislatively authorized annual operating budget.

**Additional budgetary information can be found on pages 143-144 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, 2004 totaled \$15.8 billion, net of accumulated depreciation. The total primary government increase in capital assets for the current period was 6%, with a 5% increase in capital assets used for governmental activities and a 10% increase for business-type activities. Depreciation charges of the governmental and business-type activities for the fiscal year totaled \$236 million.

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

- The universities' additions to capital assets totaled approximately \$378 million.
- The Department of Transportation started or completed roads and bridges totaling \$2.0 billion during the fiscal year.

For government-wide financial statement presentation, all depreciable assets, except infrastructure using the modified approach, were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures.

Capital assets for the governmental and business-type activities as of June 30, 2004 are presented below (amounts in thousands):

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003, as restated	2004	2003, as restated
Land	\$ 1,958,827	\$ 1,938,169	\$ 135,715	\$ 135,095	\$ 2,094,542	\$ 2,073,264
Buildings	1,488,193	1,196,997	2,488,685	2,232,616	3,976,878	3,429,613
Improvements other than buildings	140,029	129,035	2,493	2,478	142,522	131,513
Equipment	636,522	585,903	1,063,060	985,669	1,699,582	1,571,572
Collections (non-depreciable)	-	-	31,054	30,591	31,054	30,591
Infrastructure	8,597,975	7,571,377	246,791	279,494	8,844,766	7,850,871
Construction in progress	1,456,713	2,184,798	160,275	133,986	1,616,988	2,318,784
Less accumulated depreciation	(888,289)	(834,350)	(1,748,158)	(1,638,490)	(2,636,447)	(2,472,840)
Total	<u>\$ 13,389,970</u>	<u>\$ 12,771,929</u>	<u>\$ 2,379,915</u>	<u>\$ 2,161,439</u>	<u>\$ 15,769,885</u>	<u>\$ 14,933,368</u>

See Note 4, capital assets, beginning on **page 81** for additional capital asset data and Note 8, accounting changes and restatements, on **page 100** for information concerning Arizona State University raising its capitalization threshold to \$5,000 for equipment and collections.

As provided by GASB 34, the State has elected to record its infrastructure assets using the modified approach. Assets accounted for under the modified approach include approximately 6,912 centerline miles (18,391 travel lane miles) and 4,488 bridges (deck area of 41.2 million square feet) that the Department of Transportation (Department) is responsible for maintaining.

The Department 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 poor) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.8 was achieved for fiscal year end 2004.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the State to maintain a Condition Rating Index (CRI) of 92.5% or better. In fiscal year 2004, a CRI of 93.8% was obtained.

In addition to many smaller projects, each of the following major highway construction projects in excess of \$20 million were started during fiscal year 2004 (amounts in thousands):

<u>Project Description</u>	<u>Contract Start</u>	<u>Contract Amount</u>	<u>Current Year Expenditures</u>
Construction of new roadway on State Route Loop 202, from Elliot Road to Power Road in Maricopa County.	03/23/2004	\$ 54,114	\$ 7,445
Widening US 60 and constructing part of the State Route Loop 202 urban interchange, starting at Sossaman Road and ending west of Ellsworth Road in Maricopa County.	10/20/2003	\$ 40,952	\$ 31,462
Construction of new roadway on State Route Loop 202, from Elliot Road to Baseline Road in Maricopa County.	11/24/2003	\$ 39,463	\$ 18,703
Reconstruction of roadway to a 4 lane divided highway on the Burro Creek Section of US 93 in Mohave County.	12/23/2003	\$ 25,934	\$ 5,055
Construction of new roadway on State Route 188, from Resort Road to Devore Wash in Gila County.	09/05/2003	\$ 25,643	\$ 11,219
Construction of new roadway on State Route Loop 202, west of Higley Road to Power Road in Maricopa County.	01/20/2004	\$ 22,855	\$ 4,736

In addition to many smaller projects, the following major highway construction projects had expenditures in excess of \$15 million in fiscal year 2004:

<u>Project Description</u>	<u>Project Expenditures</u>
Construction of HOV lanes, roadway and drainage improvements on State Route 51, from Interstate 10 to Shea Boulevard in Maricopa County.	\$ 74,690
Construction of a bridge to by-pass the Hoover Dam on Interstate 93 in Mohave County.	\$ 50,041
Construction of new roadway at the interchange of State Route Loop 202 and Interstate 60 in Maricopa County.	\$ 36,479
Construction of new roadway on State Route Loop 202, from Gilbert Road to Higley Road in Maricopa County.	\$ 30,619
Construction of the roadway at the interchange of Interstate 10 and Interstate 19 in Pima County.	\$ 23,425
Construction of new roadway on State Route Loop 202, at Price Road in Maricopa County.	\$ 22,086
Construction of new roadway on State Route Loop 202, from Elliot Road to Baseline Road in Maricopa County.	\$ 20,470
Construction on Interstate 95 from McCulloch Boulevard to London Bridge Road in Mohave County.	\$ 19,194
Construction of new roadway on State Route Loop 202, from Dobson Road to Arizona Avenue in Maricopa County.	\$ 17,416
Construction of two overpasses on Grand Avenue (US 60): One at 43rd Ave. and Camelback Road and another at 51st Ave. and Bethany Home Rode in Maricopa County.	\$ 16,076
Construction on State Route 260 in Camp Verde area in Yavapai County.	\$ 15,166
Construction of new roadway on State Route Loop 202, from Price Road to Arizona Avenue in Maricopa County.	\$ 15,138

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

**More detailed information regarding capital assets are on pages 81 and 82.**

**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 Department of Transportation issued revenue bonds for \$251 million to acquire land for future construction of controlled access roads, statewide road construction and early redemption of revenue bonds prior to maturity in the amount of approximately \$115 million. The School Facilities Board issued \$247 million of revenue bonds to do school repairs at K through 12 public schools throughout the State.
- The Universities issued revenue bonds for \$191 million (including refunding bonds of \$9.8 million) primarily to fund the acquisition, construction or renovation of capital facilities, and information technology and telecommunications upgrade projects.
- The Department of Transportation issued \$200 million of grant anticipation notes to (i) pay costs of the projects (as specified), (ii) pay costs of issuing the notes, (iii) pay interest on the notes, and (iv) refund the 2000A Series Notes in the aggregate principal amount of \$26.255 million.
- The School Facilities Board issued \$242 million of certificates of participation to acquire and construct leasehold interests in new schools. The schools will be subleased to county school districts. At no time during the construction and sublease of the schools will the leasehold improvements be reported as assets of the State government.
- Universities issued \$260 million of certificates of participation primarily for construction and building renewal projects and early redemption of certificates of participation prior to maturity.

State of Arizona-Primary Government  
Outstanding Bonded Long-Term Debt as of June 30, 2004  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue Bonds	\$ 2,278,225	\$ 2,173,055	\$ 756,781	\$ 597,238	\$ 3,035,006	\$ 2,770,293
Grant Anticipation Notes	308,585	169,145	-	-	308,585	169,145
Certificates of Participation	845,804	582,511	641,315	429,144	1,487,119	1,011,655
Total	<u>\$ 3,432,614</u>	<u>\$ 2,924,711</u>	<u>\$ 1,398,096</u>	<u>\$ 1,026,382</u>	<u>\$ 4,830,710</u>	<u>\$ 3,951,093</u>

**More detailed information regarding long-term debt begins on page 87.**



## ECONOMIC CONDITION AND OUTLOOK

Research Administration's forecast update calls for Arizona's economy to continue expanding through the forecast period of 2004-05. Essentially unchanged from the original forecast, Arizona's non-farm jobs are forecast to grow by 2.4% in 2004 and 3.0% in 2005. Over the two-year period, non-farm job growth is forecast to total more than 125,000. Meanwhile, the national economy is forecast to show continued improvement during the 2004-05 period. According to Global Insight, non-farm jobs at the national level are forecast to grow at annual rates of 1.0% in 2004 and 1.7% in 2005.

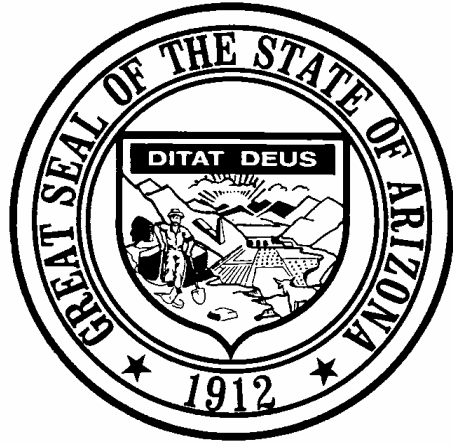
During the forecast period, some issues will continue to capture attention and restrain the growth of the economy. Slower expansion is the result of, first, higher-than-anticipated energy costs that have eroded consumer purchasing power and elevated business costs. Second, firms have been reluctant to hire new workers because of the continued upward spiral of health care costs and advances in productivity. Third, real growth in wages has been slow because of weak hiring that has maintained slack labor markets.

In conclusion, Arizona's economy has been adding jobs for nearly two years at a rate that ranks it among the top ten states in the nation, in terms of annual percentage growth. While the nation has shown six consecutive months of over-the-year increases, not all states have yet realized job creation. For those states now adding jobs, the pace of recovery has been slow. Research Administration is convinced that Arizona's economy will continue on a path of modest growth that will accelerate well into 2005.

## CONTACTING THE STATE COMPTROLLER'S OFFICE

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Department of Administration, General Accounting Office, Financial Reporting Section at (602) 542-5405. You may also access and print this report at <http://www.gao.state.az.us/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 63**.



# BASIC FINANCIAL STATEMENTS

**BASIC FINANCIAL STATEMENTS**

*(This page intentionally left blank)*

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2004  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
			PRIMARY GOVERNMENT	
<b>ASSETS</b>				
Current Assets:				
Cash	\$ 2,685	\$ 52,443	\$ 55,128	\$ 11,228
Cash with U.S. Treasury	-	759,016	759,016	-
Cash and pooled investments with State Treasurer	1,855,339	213,155	2,068,494	223,171
Restricted cash and pooled investments with State Treasurer	-	91,639	91,639	-
Cash held by trustee	-	-	-	15,064
Collateral investment pool	-	51,959	51,959	-
Short-term investments	-	100,006	100,006	38,660
Restricted investments held by trustee	-	-	-	2,653
Receivables, net of allowances:				
Taxes	423,004	51,217	474,221	-
Interest	13,871	2,676	16,547	3,562
Loans and notes	6,265	13,258	19,523	8,931
Other	132,146	75,491	207,637	54,359
Internal balances	66,948	(66,948)	-	-
Due from U.S. Government	271,553	53,338	324,891	-
Due from local governments	1,751	386	2,137	-
Due from others	3	-	3	-
Inventories, at cost	21,279	27,304	48,583	8,296
Other current assets	7,364	3,642	11,006	1,520
<b>Total Current Assets</b>	<b>2,802,208</b>	<b>1,428,582</b>	<b>4,230,790</b>	<b>367,444</b>
Noncurrent Assets:				
Restricted assets:				
Cash	2,825	132,097	134,922	-
Cash and pooled investments with State Treasurer	555,811	3,439	559,250	-
Cash held by trustee	104,363	37,813	142,176	-
Investments held by trustee	-	233,624	233,624	42,049
Receivables, net of allowances:				
Loans and notes	423,212	47,467	470,679	400,239
Other	-	3,394	3,394	-
Investments	43,283	343,307	386,590	75,877
Endowment investments	1,312,180	233,133	1,545,313	-
Other noncurrent assets	-	18,275	18,275	53,397
Capital assets:				
Infrastructure, land and other non-depreciable	12,006,911	327,044	12,333,955	10,640
Depreciable buildings, property and equipment, net of accumulated depreciation	1,383,059	2,052,871	3,435,930	96,882
<b>Total Noncurrent Assets</b>	<b>15,831,644</b>	<b>3,432,464</b>	<b>19,264,108</b>	<b>679,084</b>
<b>Total Assets</b>	<b>\$ 18,633,852</b>	<b>\$ 4,861,046</b>	<b>\$ 23,494,898</b>	<b>\$ 1,046,528</b>

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

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2004  
 (Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
			PRIMARY GOVERNMENT	
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and other current liabilities	\$ 694,249	\$ 79,735	\$ 773,984	\$ 27,997
Accrued liabilities	275,540	54,874	330,414	17,114
Obligations under securities loan agreements	-	51,959	51,959	-
Tax refunds payable	74	-	74	-
Due to U.S. Government	8,836	26	8,862	-
Due to local governments	382,744	4,765	387,509	-
Due to others	77,225	59,493	136,718	-
Unearned deferred revenue	53,373	88,231	141,604	-
Current portion of accrued insurance losses	49,432	34,708	84,140	-
Current portion of long-term debt	391,760	41,070	432,830	17,105
Current portion of other long-term liabilities	278,767	8,859	287,626	4,533
Total Current Liabilities	2,212,000	423,720	2,635,720	66,749
Noncurrent Liabilities:				
Unearned deferred revenue	6,587	44,570	51,157	1,568
Contracts Payable	39,550	-	39,550	-
Accrued insurance losses	193,696	350,228	543,924	13,110
Funds held for others	-	36,076	36,076	-
Long-term debt	3,316,751	1,459,696	4,776,447	580,829
Other long-term liabilities	171,795	42,157	213,952	4,984
Total Noncurrent Liabilities	3,728,379	1,932,727	5,661,106	600,491
Total Liabilities	5,940,379	2,356,447	8,296,826	667,240
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	11,226,325	1,176,872	12,403,197	34,630
Restricted for:				
Federal grants	73,466	-	73,466	-
Capital projects	414,113	3,023	417,136	-
Unemployment compensation	-	796,119	796,119	-
Debt service	31,302	16,940	48,242	13,765
Permanent funds / University funds:				
Expendable	-	157,595	157,595	-
Nonexpendable	1,550,247	153,073	1,703,320	-
Loans and other financial assistance	-	63,500	63,500	232,603
Other purposes	31,447	-	31,447	-
Unrestricted	(633,427)	137,477	(495,950)	98,290
Total Net Assets	\$ 12,693,473	\$ 2,504,599	\$ 15,198,072	\$ 379,288

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

STATE OF ARIZONA  
**STATEMENT OF FINANCIAL POSITION**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2004  
(Expressed in Thousands)

**ASSETS**

Cash and cash equivalent investments	\$	31,543
Receivables:		
Pledges receivable		113,845
Other receivables		13,896
Total receivables		<u>127,741</u>
Investments:		
Investments in securities		583,867
Investments held in trust for Universities		51,070
Other investments		16,793
Total investments		<u>651,730</u>
Net direct financing leases		35,100
Property and equipment, net of accumulated depreciation		141,207
Other assets		<u>70,006</u>
Total Assets		<u>1,057,327</u>

**LIABILITIES**

Liability under Universities' endowment trust agreements		74,161
Bonds payable		238,041
Unearned revenue		18,802
Other liabilities		<u>37,690</u>
Total Liabilities		<u>368,694</u>

**NET ASSETS**

Permanently restricted		423,895
Temporarily restricted		230,925
Unrestricted		<u>33,813</u>
Total Net Assets	\$	<u>688,633</u>

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



*(This page intentionally left blank)*

STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b><u>FUNCTIONS/PROGRAMS</u></b>				
<b>PRIMARY GOVERNMENT:</b>				
Governmental Activities:				
General government	\$ 726,525	\$ 140,791	\$ 169,994	\$ -
Health and welfare	7,717,148	84,739	5,761,217	-
Inspection and regulation	138,281	133,510	16,748	-
Education	4,703,685	32,882	849,961	-
Protection and safety	1,059,047	85,917	102,890	-
Transportation	731,522	114,097	44,158	421,220
Natural resources	162,366	44,908	36,780	31
Intergovernmental revenue sharing	2,144,438	-	-	-
Interest on long-term debt	176,035	-	-	-
Total Governmental Activities	<u>17,559,047</u>	<u>636,844</u>	<u>6,981,748</u>	<u>421,251</u>
Business-type Activities:				
Universities	2,342,085	778,047	729,896	18,513
Unemployment compensation	397,657	196,531	105,402	-
Industrial Commission special fund	167,331	5,142	-	-
Lottery	303,996	366,582	-	-
Other	109,944	103,548	778	-
Total Business-type Activities	<u>3,321,013</u>	<u>1,449,850</u>	<u>836,076</u>	<u>18,513</u>
Total Primary Government	<u>\$ 20,880,060</u>	<u>\$ 2,086,694</u>	<u>\$ 7,817,824</u>	<u>\$ 439,764</u>
<b>COMPONENT UNITS:</b>				
Water Infrastructure Finance Authority	\$ 16,128	\$ 9,308	\$ 35,120	\$ -
University Medical Center	326,592	337,386	-	-
Arizona Power Authority	25,389	25,446	-	-
Total Component Units	<u>\$ 368,109</u>	<u>\$ 372,140</u>	<u>\$ 35,120</u>	<u>\$ -</u>

General Revenues:  
 Taxes:  
 Sales  
 Income  
 Tobacco  
 Property  
 Motor vehicle and fuel  
 Other  
 Unrestricted investment earnings  
 Unrestricted grants and contributions  
 Miscellaneous  
 Contributions to permanent endowments  
 Gain on sale of trust land  
 Special item - voluntary retirement program for faculty  
 Transfers  
 Total General Revenues, Contributions, Gains, Special Items and Transfers  
 Change in Net Assets  
 Net Assets - Beginning, as restated  
 Net Assets - Ending

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

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS

PRIMARY GOVERNMENT			
GOVERNMENTAL	BUSINESS-TYPE	TOTAL	COMPONENT
ACTIVITIES	ACTIVITIES	PRIMARY	UNITS
		GOVERNMENT	
\$ (415,740)		\$ (415,740)	
(1,871,192)		(1,871,192)	
11,977		11,977	
(3,820,842)		(3,820,842)	
(870,240)		(870,240)	
(152,047)		(152,047)	
(80,647)		(80,647)	
(2,144,438)		(2,144,438)	
(176,035)		(176,035)	
<u>(9,519,204)</u>		<u>(9,519,204)</u>	
	\$ (815,629)	(815,629)	
	(95,724)	(95,724)	
	(162,189)	(162,189)	
	62,586	62,586	
	<u>(5,618)</u>	<u>(5,618)</u>	
	<u>(1,016,574)</u>	<u>(1,016,574)</u>	
<u>(9,519,204)</u>	<u>(1,016,574)</u>	<u>(10,535,778)</u>	
			\$ 28,300
			10,794
			<u>57</u>
			<u>39,151</u>
5,016,585	50,050	5,066,635	-
2,800,461	-	2,800,461	-
223,804	-	223,804	-
50,455	-	50,455	-
1,613,952	-	1,613,952	-
539,218	-	539,218	-
24,227	38,753	62,980	7,024
8,502	-	8,502	-
281,109	46,615	327,724	-
-	2,231	2,231	-
319,517	-	319,517	-
-	(6,880)	(6,880)	-
<u>(678,726)</u>	<u>678,726</u>	<u>-</u>	<u>-</u>
<u>10,199,104</u>	<u>809,495</u>	<u>11,008,599</u>	<u>7,024</u>
679,900	(207,079)	472,821	46,175
<u>12,013,573</u>	<u>2,711,678</u>	<u>14,725,251</u>	<u>333,113</u>
\$ 12,693,473	\$ 2,504,599	\$ 15,198,072	\$ 379,288

STATE OF ARIZONA  
**STATEMENT OF ACTIVITIES**  
UNIVERSITIES - AFFILIATED COMPONENT UNITS  
JUNE 30, 2004  
(Expressed in Thousands)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>REVENUES</b>				
Contributions	\$ 8,296	\$ 56,339	\$ 29,471	\$ 94,106
Rental revenue	21,514	-	-	21,514
Sales and services	6,781	-	-	6,781
Net investment income	7,673	9,001	32,914	49,588
Net assets released from restrictions	76,717	(68,794)	(7,923)	-
Other revenues	21,246	13,128	121	34,495
Total Revenues	<u>142,227</u>	<u>9,674</u>	<u>54,583</u>	<u>206,484</u>
<b>EXPENSES</b>				
Program services:				
Payments to Universities	49,005	-	-	49,005
Leasing related expenses	5,876	-	-	5,876
Payments on behalf of Universities	21,635	-	-	21,635
Other program services	16,095	-	-	16,095
Personal services, operations, and administrative expenses	23,209	-	-	23,209
Fundraising expenses	8,418	-	-	8,418
Interest	3,904	-	-	3,904
Other expenses	8,025	-	-	8,025
Total Expenses	<u>136,167</u>	<u>-</u>	<u>-</u>	<u>136,167</u>
Increase in Net Assets	6,060	9,674	54,583	70,317
Net Assets - Beginning	27,304	222,096	368,916	618,316
Transfers	449	(845)	396	-
Net Assets - Ending	<u>\$ 33,813</u>	<u>\$ 230,925</u>	<u>\$ 423,895</u>	<u>\$ 688,633</u>

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

STATE OF ARIZONA  
**BALANCE SHEET**  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2004  
 (Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
<b>ASSETS</b>					
Cash	\$ 983	\$ -	\$ 28	\$ 1,674	\$ 2,685
Cash and pooled investments with State Treasurer	843,614	156,686	124,152	645,503	1,769,955
Receivables, net of allowances:					
Taxes	345,328	60,209	-	17,467	423,004
Interest	6,904	804	4,569	1,593	13,870
Loans and notes	-	-	429,477	-	429,477
Other	72,625	26,709	2,679	20,230	122,243
Due from U.S. Government	112,067	47,343	-	-	159,410
Due from local governments	1,710	41	-	-	1,751
Due from others	-	-	-	1	1
Due from other Funds	235,892	20,000	214	49,612	305,718
Inventories, at cost	11,200	4,994	-	2,542	18,736
Restricted assets:					
Cash	2,825	-	-	-	2,825
Cash and pooled investments with State Treasurer	26,215	390,281	-	139,315	555,811
Cash held by trustee	81,606	-	-	22,757	104,363
Endowment investments	-	-	1,312,180	-	1,312,180
Investments	43,283	-	-	-	43,283
Other	353	-	-	1	354
<b>Total Assets</b>	<b>\$ 1,784,605</b>	<b>\$ 707,067</b>	<b>\$ 1,873,299</b>	<b>\$ 900,695</b>	<b>\$ 5,265,666</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and other current liabilities	\$ 344,719	\$ 92,713	\$ 44,104	\$ 167,812	\$ 649,348
Accrued liabilities	100,195	8,451	41	14,602	123,289
Tax refunds payable	74	-	-	-	74
Due to U.S. Government	8,563	-	-	-	8,563
Due to local governments	278,085	103,371	-	1,288	382,744
Due to others	76,962	-	1	262	77,225
Due to other Funds	36,051	174,553	6,816	25,104	242,524
Unavailable deferred revenue	157,062	6,859	436,611	1,512	602,044
Unearned deferred revenue	36,256	-	23,553	151	59,960
<b>Total Liabilities</b>	<b>1,037,967</b>	<b>385,947</b>	<b>511,126</b>	<b>210,731</b>	<b>2,145,771</b>
Fund Balances:					
Reserved for:					
Budget stabilization fund	13,545	-	-	-	13,545
Highway construction	-	233,650	-	87,751	321,401
Other construction	-	-	-	41,165	41,165
School facilities improvements	96,714	-	-	17,808	114,522
Permanent funds	-	-	1,361,366	-	1,361,366
Continuing appropriations	74,973	85,843	807	28,298	189,921
Debt service	-	-	-	27,693	27,693
Other fund balance reservations	377	24,994	-	144	25,515
Unreserved	561,029	(23,367)	-	-	537,662
Unreserved reported in:					
Non-major special revenue funds	-	-	-	487,105	487,105
<b>Total Fund Balances</b>	<b>746,638</b>	<b>321,120</b>	<b>1,362,173</b>	<b>689,964</b>	<b>3,119,895</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,784,605</b>	<b>\$ 707,067</b>	<b>\$ 1,873,299</b>	<b>\$ 900,695</b>	<b>\$ 5,265,666</b>

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

STATE OF ARIZONA  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 JUNE 30, 2004  
 (Expressed in Thousands)

**Total fund balances - governmental funds** \$ 3,119,895

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 13,331,214

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. 602,044

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets. (140,808)

The allocation of internal service fund net loss results in an amount due from business-type activities, which is not reported in the funds. 2,614

Deferred issue costs are reported as current expenditures in the funds. However, deferred issue costs are amortized over the life of the bonds and are included in the governmental activities in the Statement of Net Assets. 5,078

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

Revenue bonds	(2,278,225)	
Premium on revenue bonds	(83,686)	
Grant anticipation notes	(308,585)	
Premium on grant anticipation notes	(9,623)	
Certificates of participation	(845,804)	
Premium on certificates of participation	(51,450)	
Capital leases	(125,974)	
Installment purchase contracts	<u>(4,602)</u>	(3,707,949)

Accrued liabilities for AHCCCS programmatic costs are not due and payable from current financial resources and, therefore, are not reported in the funds. (153,304)

Accrued long-term contract payable to Accenture is not due and payable from current financial resources and, therefore, is not reported in the funds. (39,550)

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

Compensated absences	(135,064)	
Claims and judgments	<u>(304,446)</u>	(439,510)

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

AHCCCS programmatic cost reimbursements	110,760	
Other long-term assets	<u>2,989</u>	113,749

**Net assets of governmental activities** \$ 12,693,473

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, 2004  
(Expressed in Thousands)

	TRANSPORTATION & AVIATION PLANNING,				TOTAL
	GENERAL FUND	HIGHWAY MAINTENANCE & SAFETY FUND	LAND ENDOWMENTS FUND	OTHER GOVERNMENTAL FUNDS	
<b>REVENUES</b>					
Taxes:					
Sales	\$ 4,201,649	\$ 288,600	\$ -	\$ 495,175	\$ 4,985,424
Income	2,818,733	-	-	45	2,818,778
Tobacco	58,471	-	-	165,333	223,804
Property	42,892	6,321	-	1,242	50,455
Motor vehicle and fuel	801	1,613,063	-	88	1,613,952
Other	431,101	-	-	108,117	539,218
Intergovernmental	6,655,803	465,378	6	38,789	7,159,976
Licenses, fees and permits	87,817	108,347	-	153,774	349,938
Earnings on investments	9,462	3,203	107,509	11,541	131,715
Sales and charges for services	100,419	902	27,996	31,853	161,170
Fines, forfeitures and penalties	32,748	-	-	87,284	120,032
Gaming	3,612	-	-	53,905	57,517
Tobacco settlement	92,550	-	-	-	92,550
Other	220,136	26,381	22,537	44,166	313,220
Total Revenues	<u>14,756,194</u>	<u>2,512,195</u>	<u>158,048</u>	<u>1,191,312</u>	<u>18,617,749</u>
<b>EXPENDITURES</b>					
Current:					
General government	627,051	-	340	90,838	718,229
Health and welfare	7,448,239	-	2,142	283,135	7,733,516
Inspection and regulation	44,822	-	-	91,367	136,189
Education	4,027,898	-	59,968	614,743	4,702,609
Protection and safety	924,069	75	675	103,315	1,028,134
Transportation	68	679,903	-	37,492	717,463
Natural resources	48,789	-	652	104,092	153,533
Intergovernmental revenue sharing	1,121,670	1,022,768	-	-	2,144,438
Debt service:					
Principal	5,998	-	28	321,569	327,595
Interest and other fiscal charges	33,387	2,834	-	152,026	188,247
Capital outlay	55,399	281,416	183	358,291	695,289
Total Expenditures	<u>14,337,390</u>	<u>1,986,996</u>	<u>63,988</u>	<u>2,156,868</u>	<u>18,545,242</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>418,804</u>	<u>525,199</u>	<u>94,060</u>	<u>(965,556)</u>	<u>72,507</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	288,617	54,503	-	596,930	940,050
Transfers out	(788,382)	(527,990)	(5,071)	(294,662)	(1,616,105)
Proceeds from sale of trust land	-	-	149,001	-	149,001
Capital lease and installment purchase contracts	24,154	-	-	195	24,349
Refunding bonds issued	-	-	-	107,940	107,940
Payment to refunded bond escrow agent	-	-	-	(145,965)	(145,965)
Bonds issued	-	-	-	389,746	389,746
Premium on bonds issued	-	-	-	22,024	22,024
Refunding grant anticipation notes issued	-	-	-	22,633	22,633
Grant anticipation notes issued	-	-	-	177,322	177,322
Premium on grant anticipation notes issued	-	-	-	9,623	9,623
Refunding certificates of participation issued	-	-	-	16,725	16,725
Payment to refunded certificates of participation escrow agent	-	-	-	(17,273)	(17,273)
Certificates of participation issued	241,770	-	-	31,965	273,735
Premium on certificates of participation issued	15,253	-	-	1,934	17,187
Total Other Financing Sources (Uses)	<u>(218,588)</u>	<u>(473,487)</u>	<u>143,930</u>	<u>919,137</u>	<u>370,992</u>
Net Change in Fund Balances	<u>200,216</u>	<u>51,712</u>	<u>237,990</u>	<u>(46,419)</u>	<u>443,499</u>
Fund Balances - Beginning	<u>546,422</u>	<u>269,408</u>	<u>1,124,183</u>	<u>736,383</u>	<u>2,676,396</u>
Fund Balances - Ending	<u>\$ 746,638</u>	<u>\$ 321,120</u>	<u>\$ 1,362,173</u>	<u>\$ 689,964</u>	<u>\$ 3,119,895</u>

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

STATE OF ARIZONA  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

**Net change in fund balances - total governmental funds** \$ 443,499

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

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

Capital outlay	695,289	
Depreciation expense	<u>(76,670)</u>	618,619

The net loss of internal service funds that is included with governmental activities in the Statement of Activities. (6,940)

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

Licenses, fees and permits	4,848	
Sales taxes	31,161	
Other revenue	<u>5,736</u>	41,745

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

Operating grants	(42,685)	
Income taxes	<u>(18,317)</u>	(61,002)

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increased financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold. (1,872)

In the Statement of Activities, the gain on the sale of trust land is reported, whereas in the governmental funds, the proceeds from the sale increased financial resources. 170,516

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

Accrued contract payable	(39,550)	
Litigation	(1,300)	
Compensated absences	(2,452)	
Other noncurrent expenses	<u>(4,160)</u>	(47,462)

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**  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

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

AHCCCS accrued programmatic costs	36,344	
Ladewig vs. State of Arizona lawsuit	<u>5,761</u>	42,105

The estimated liability for the Ladewig vs. State of Arizona lawsuit, which was accrued at the government-wide level in fiscal year 2003, has been revised, in the State's favor, in fiscal year 2004. This accrual was not financed from current financial resources in fiscal year 2003 and, therefore, was not reported in the fund statements in fiscal year 2003.

41,907

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

New bonds issued	(389,746)	
Refunding bonds issued	(107,940)	
Premium on bonds issued	(22,024)	
Bond premium/discount amortization	8,043	
New certificates of participation issued	(273,735)	
Premium on COPs issued	(17,187)	
COP premium amortization	4,247	
Refunding certificates of participation issued	(16,725)	
Grant anticipation notes issued	(177,322)	
Refunding grant anticipation notes issued	(22,633)	
Premium on grant anticipation notes issued	<u>(9,623)</u>	(1,024,645)

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

Debt service principal	327,595	
Payment to refunded bond escrow agent	141,000	
Payment to refunded certificates of participation escrow agent	16,645	
Bond issuance costs	<u>2,539</u>	487,779

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

(24,349)

**Change in net assets of governmental activities**

\$ 679,900

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

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 PROPRIETARY FUNDS  
 JUNE 30, 2004  
 (Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 46,846	\$ 39	\$ 5,190	\$ -	\$ 368
Cash with U.S. Treasury	-	759,016	-	-	-
Cash and pooled investments with State Treasurer	155,063	-	980	39,001	18,111
Restricted cash and pooled investments with State Treasurer	-	-	-	-	91,639
Collateral investment pool	17,963	-	33,996	-	-
Short-term investments	99,945	-	-	-	61
Receivables, net of allowances:					
Taxes	-	47,570	3,647	-	-
Interest	630	-	1,887	-	159
Loans and notes	4,039	-	-	-	9,219
Other	52,757	10,036	2,252	5,224	5,222
Due from U.S. Government	53,215	-	-	-	123
Due from local governments	-	-	-	-	386
Due from others	-	-	-	-	-
Due from other Funds	-	-	-	-	106,566
Inventories, at cost	17,086	-	-	1,555	8,663
Other current assets	2,734	-	-	-	908
Total Current Assets	<u>450,278</u>	<u>816,661</u>	<u>47,952</u>	<u>45,780</u>	<u>241,425</u>
Noncurrent Assets:					
Restricted assets:					
Cash	132,097	-	-	-	-
Cash and pooled investments with State Treasurer	-	-	-	-	3,439
Cash held by trustee	37,813	-	-	-	-
Investments held by trustee	230,287	-	3,337	-	-
Receivables, net of allowances:					
Loans and notes	29,138	-	-	-	18,329
Other	3,394	-	-	-	-
Investments	155,274	-	188,033	-	-
Endowment investments	233,133	-	-	-	-
Other long-term assets	10,888	-	-	7,208	179
Capital assets:					
Infrastructure, land and other non-depreciable	320,777	-	2,996	1,032	2,239
Depreciable buildings, property and equipment, net of accumulated depreciation	2,012,152	-	20,558	2,449	17,712
Total Noncurrent Assets	<u>3,164,953</u>	<u>-</u>	<u>214,924</u>	<u>10,689</u>	<u>41,898</u>
Total Assets	<u>3,615,231</u>	<u>816,661</u>	<u>262,876</u>	<u>56,469</u>	<u>283,323</u>

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

		GOVERNMENTAL	
<u>TOTAL</u>		<u>ACTIVITIES -</u>	
<u>ENTERPRISE</u>		<u>INTERNAL</u>	
<u>FUNDS</u>		<u>SERVICE FUNDS</u>	
\$	52,443	\$	-
	759,016		-
	213,155		85,384
	91,639		-
	51,959		-
	100,006		-
	51,217		-
	2,676		1
	13,258		-
	75,491		9,903
	53,338		-
	386		-
	-		2
	106,566		2,829
	27,304		2,542
	3,642		1,932
	<u>1,602,096</u>		<u>102,593</u>
	132,097		-
	3,439		-
	37,813		-
	233,624		-
	47,467		-
	3,394		-
	343,307		-
	233,133		-
	18,275		-
	327,044		-
	<u>2,052,871</u>		<u>58,756</u>
	<u>3,432,464</u>		<u>58,756</u>
	<u>5,034,560</u>		<u>161,349</u>

(Continued)

STATE OF ARIZONA  
**STATEMENT OF NET ASSETS**  
 PROPRIETARY FUNDS  
 JUNE 30, 2004  
 (Expressed in Thousands)

BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	72,259	-	1,954	3,100	2,422
Accrued liabilities	38,594	14,646	-	-	1,634
Obligations under securities loan agreements	17,963	-	33,996	-	-
Due to U.S. Government	-	26	-	-	-
Due to local governments	-	-	-	4,765	-
Due to others	24,257	5,689	-	29,378	169
Due to other Funds	-	181	-	8,303	162,416
Unearned deferred revenue	80,081	-	-	-	8,150
Current portion of accrued insurance losses	-	-	34,708	-	-
Current portion of long-term debt	39,503	-	1,500	-	67
Current portion of other long-term liabilities	7,691	-	-	381	787
Total Current Liabilities	<u>280,348</u>	<u>20,542</u>	<u>72,158</u>	<u>45,927</u>	<u>175,645</u>
Noncurrent Liabilities:					
Unearned deferred revenue	44,570	-	-	-	-
Accrued insurance losses	-	-	350,228	-	-
Funds held for others	36,076	-	-	-	-
Long-term debt	1,456,508	-	3,100	-	88
Other long-term liabilities	42,084	-	-	-	73
Total Noncurrent Liabilities	<u>1,579,238</u>	<u>-</u>	<u>353,328</u>	<u>-</u>	<u>161</u>
Total Liabilities	<u>1,859,586</u>	<u>20,542</u>	<u>425,486</u>	<u>45,927</u>	<u>175,806</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,134,485	-	18,955	3,481	19,951
Restricted for:					
Capital projects	3,023	-	-	-	-
Unemployment compensation	-	796,119	-	-	-
Debt service	13,603	-	3,337	-	-
Loans and other financial assistance	-	-	-	-	63,500
University funds:					
Expendable	157,595	-	-	-	-
Nonexpendable	153,073	-	-	-	-
Unrestricted	293,866	-	(184,902)	7,061	24,066
Total Net Assets	<u>\$ 1,755,645</u>	<u>\$ 796,119</u>	<u>\$ (162,610)</u>	<u>\$ 10,542</u>	<u>\$ 107,517</u>

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

Net assets of business-type activities

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

<u>TOTAL ENTERPRISE FUNDS</u>	<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS</u>
79,735	44,900
54,874	826
51,959	-
26	-
4,765	-
59,493	-
170,900	1,689
88,231	-
34,708	49,432
41,070	562
8,859	7,631
<u>594,620</u>	<u>105,040</u>
44,570	-
350,228	193,696
36,076	-
1,459,696	-
42,157	3,421
<u>1,932,727</u>	<u>197,117</u>
<u>2,527,347</u>	<u>302,157</u>
1,176,872	58,195
3,023	-
796,119	-
16,940	-
63,500	-
157,595	-
153,073	-
140,091	(199,003)
<u>\$ 2,507,213</u>	<u>\$ (140,808)</u>
(2,614)	
<u>\$ 2,504,599</u>	

STATE OF ARIZONA  
**STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL		
			COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>OPERATING REVENUES</b>					
Sales and charges for services:					
Pledged student tuition and fees, net of scholarship allowances of \$136,263	\$ 496,652	\$ -	\$ -	\$ -	\$ -
Pledged auxiliary enterprises, net of scholarship allowances of \$5,895	240,112	-	-	-	-
Pledged educational department	41,283	-	-	-	-
Lottery	-	-	-	366,582	-
Other	-	-	-	-	99,430
Unemployment assessments	-	194,894	-	-	-
Workers' compensation assessments	-	-	5,142	-	-
Intergovernmental	552,350	59,408	-	-	778
Nongovernmental grants and contracts	86,309	-	-	-	-
Licenses, fees and permits	-	-	-	-	589
Earnings on investments	-	-	-	-	3,529
Fines, forfeitures and penalties	-	1,637	-	-	-
Other (revenues for Universities are pledged)	21,846	27	3,170	135	1,308
Total Operating Revenues	<u>1,438,552</u>	<u>255,966</u>	<u>8,312</u>	<u>366,717</u>	<u>105,634</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	558,523	397,657	163,108	241,443	69,708
Interest on notes payable	-	-	-	-	4,097
Scholarships and fellowships	100,181	-	-	-	-
Personal services	1,463,961	-	-	5,227	23,447
Contractual services	-	-	-	10,017	5,342
Depreciation and amortization	142,038	-	1,133	176	2,605
Insurance	-	-	-	67	605
Other	-	-	-	2,888	4,138
Total Operating Expenses	<u>2,264,703</u>	<u>397,657</u>	<u>164,241</u>	<u>259,818</u>	<u>109,942</u>
Operating Income (Loss)	<u>(826,151)</u>	<u>(141,691)</u>	<u>(155,929)</u>	<u>106,899</u>	<u>(4,308)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Share of State sales tax revenues	50,050	-	-	-	-
Gain (loss) on sale of capital assets	9,331	-	(96)	-	16
Investment income (revenues for Universities are pledged)	17,784	45,994	19,495	-	1,474
Endowment earnings on investments	19,179	-	-	-	-
Other non-operating revenue	8,141	-	2,047	292	398
Distributions to local governments	-	-	-	(44,178)	-
Interest expense	(48,747)	-	(76)	-	(2)
Other non-operating expense	(26,063)	-	(3,014)	-	-
Total Non-Operating Revenues (Expenses)	<u>29,675</u>	<u>45,994</u>	<u>18,356</u>	<u>(43,886)</u>	<u>1,886</u>
Income (Loss) Before Contributions, Special Items and Transfers	<u>(796,476)</u>	<u>(95,697)</u>	<u>(137,573)</u>	<u>63,013</u>	<u>(2,422)</u>
Gifts and donations	72,058	-	-	-	-
Capital grants and contributions	18,513	-	-	-	-
Contributions to permanent endowments	2,231	-	-	-	-
Special item - voluntary retirement program for faculty	(6,880)	-	-	-	-
Transfers in	741,487	-	-	-	3,394
Transfers out	-	(1,654)	-	(62,501)	(2,000)
Change in Net Assets	<u>30,933</u>	<u>(97,351)</u>	<u>(137,573)</u>	<u>512</u>	<u>(1,028)</u>
Total Net Assets - Beginning, as restated	<u>1,724,712</u>	<u>893,470</u>	<u>(25,037)</u>	<u>10,030</u>	<u>108,545</u>
Total Net Assets - Ending	<u>\$ 1,755,645</u>	<u>\$ 796,119</u>	<u>\$ (162,610)</u>	<u>\$ 10,542</u>	<u>\$ 107,517</u>

Change in net assets of enterprise funds

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

Change in net assets of business-type activities

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
------------------------------	---

\$ 496,652	\$ -
240,112	-
41,283	-
366,582	-
99,430	621,031
194,894	-
5,142	-
612,536	-
86,309	-
589	-
3,529	-
1,637	-
26,486	995
<u>2,175,181</u>	<u>622,026</u>
1,430,439	497,318
4,097	-
100,181	-
1,492,635	26,130
15,359	26,618
145,952	13,310
672	59,720
7,026	6,242
<u>3,196,361</u>	<u>629,338</u>
<u>(1,021,180)</u>	<u>(7,312)</u>
50,050	-
9,251	173
84,747	19
19,179	-
10,878	6
(44,178)	-
(48,825)	(180)
(29,077)	-
<u>52,025</u>	<u>18</u>
<u>(969,155)</u>	<u>(7,294)</u>
72,058	-
18,513	453
2,231	-
(6,880)	-
744,881	-
<u>(66,155)</u>	<u>(2,671)</u>
(204,507)	(9,512)
<u>2,711,720</u>	<u>(131,296)</u>
<u>\$ 2,507,213</u>	<u>\$ (140,808)</u>
\$ (204,507)	
<u>(2,572)</u>	
<u>\$ (207,079)</u>	

STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL		
			COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ -	\$ -	\$ -	\$ 214,566	\$ 102,452
Receipts from assessments	-	190,311	1,495	-	-
Receipts from student loans collected	9,892	-	-	-	-
Receipts from sales and services of auxiliary enterprises	236,392	-	-	-	-
Receipts from sales and services of educational departments	41,274	-	-	-	-
Receipts from interfund services / premiums	-	-	-	-	-
Receipts from student tuition and fees	481,586	-	-	-	-
Receipts from federal and local governments	639,221	59,408	-	-	713
Receipts from uninsured claims	-	-	2,450	-	-
Receipts from other Funds	-	-	-	-	71,934
Payments to suppliers, prize winners, claimants, insurance companies or beneficiaries	(562,205)	(397,459)	(18,176)	(109,781)	(80,950)
Payments to employees	(1,446,026)	-	-	(5,202)	(22,904)
Payments to retirees	-	-	-	-	-
Payments for scholarships and fellowships	(100,181)	-	-	-	-
Payments for student loans issued	(11,121)	-	-	-	-
Payments to other Funds	-	-	-	-	(79,238)
Other receipts (payments)	19,014	1,663	-	10,401	(570)
Net Cash Provided (Used) by Operating Activities	(692,154)	(146,077)	(14,231)	109,984	(8,563)
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Custodial funds received	147,462	-	-	-	-
Office rental receipts	-	-	2,047	-	-
Share of State sales tax receipts	49,602	-	-	-	-
Grants and contributions received	410,241	-	-	-	-
Transfers from other Funds	741,741	-	-	-	1,504
Interest paid	-	-	-	-	-
Custodial funds disbursed	(135,333)	-	-	-	-
Grants and contributions disbursed	(351,139)	-	-	-	-
Distributions to local governments	-	-	-	(44,178)	-
Transfers to other Funds	-	(1,763)	-	(61,716)	(2,000)
Other receipts (payments)	-	-	(1,536)	-	5
Net Cash Provided (Used) by Non-capital Financing Activities	862,574	(1,763)	511	(105,894)	(491)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Proceeds from sale of capital assets	18,768	-	-	-	-
Proceeds from capital debt	420,104	-	-	-	-
Capital grants and contributions received	10,917	-	-	-	-
Acquisition and construction of capital assets	(310,855)	-	(328)	(153)	(821)
Interest paid on capital debt, installment purchase contracts and capital leases	(48,789)	-	(76)	-	-
Principal paid on capital debt, installment purchase contracts and capital leases	(44,165)	-	(1,400)	-	-
Other receipts (payments)	-	-	(102)	-	473
Net Cash Provided (Used) by Capital and Related Financing Activities	45,980	-	(1,906)	(153)	(348)

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



		GOVERNMENTAL	
TOTAL		ACTIVITIES -	
ENTERPRISE		INTERNAL	
FUNDS		SERVICE FUNDS	
\$	317,018	\$	-
	191,806		-
	9,892		-
	236,392		-
	41,274		-
	-		625,289
	481,586		-
	699,342		-
	2,450		-
	71,934		-
	(1,168,571)		(560,296)
	(1,474,132)		(26,001)
	-		(9,128)
	(100,181)		-
	(11,121)		-
	(79,238)		-
	30,508		1,005
	<u>(751,041)</u>		<u>30,869</u>
	147,462		-
	2,047		-
	49,602		-
	410,241		-
	743,245		-
	-		(180)
	(135,333)		-
	(351,139)		-
	(44,178)		-
	(65,479)		(2,671)
	<u>(1,531)</u>		<u>6</u>
	<u>754,937</u>		<u>(2,845)</u>
	18,768		1,004
	420,104		-
	10,917		-
	(312,157)		(11,053)
	(48,865)		-
	(45,565)		(2,189)
	371		-
	<u>43,573</u>		<u>(12,238)</u>

(Continued)

STATE OF ARIZONA  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				
	UNIVERSITIES	UNEMPLOYMENT COMPENSATION	INDUSTRIAL		
			COMMISSION SPECIAL FUND	LOTTERY	OTHER
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	737,945	-	140,241	-	2,900
Interest and dividends from investments	21,685	45,994	9,154	125	1,623
Change in cash collateral received from securities lending transactions	-	-	(1,279)	-	-
Purchase of investments	(1,026,419)	-	(131,284)	-	(2,905)
Other (payments)	-	-	(1,351)	-	-
Net Cash Provided (Used) by Investing Activities	<u>(266,789)</u>	<u>45,994</u>	<u>15,481</u>	<u>125</u>	<u>1,618</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(50,389)	(101,846)	(145)	4,062	(7,784)
Cash and Cash Equivalents - Beginning, as restated	422,208	860,901	40,311	34,939	121,326
Cash and Cash Equivalents - Ending	<u>\$ 371,819</u>	<u>\$ 759,055</u>	<u>\$ 40,166</u>	<u>\$ 39,001</u>	<u>\$ 113,542</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating income (loss)	\$ (826,151)	\$ (141,691)	\$ (155,929)	\$ 106,899	\$ (4,308)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	142,038	-	1,133	176	2,605
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(14,612)	(6,254)	(3,926)	1,373	(150)
(Increase) in due from U.S. Government	-	-	-	-	(65)
(Increase) in due from local governments	-	-	-	-	(6)
(Increase) in due from others	-	-	-	-	-
Decrease in due from other Funds	-	-	-	-	4,557
(Increase) decrease in inventories, at cost	220	-	-	(307)	(823)
(Increase) decrease in other assets	2,010	-	-	(185)	(331)
Increase (decrease) in accounts payable	(5,462)	-	(707)	(575)	734
Increase (decrease) in accrued liabilities	10,880	2,018	-	2,603	(1,733)
(Decrease) in due to U.S. Government	-	(150)	-	-	-
Increase in due to others	1,341	-	-	-	169
Increase (decrease) in due to other Funds	-	-	-	-	(9,229)
Increase (decrease) in deferred revenue	(2,418)	-	-	-	29
Increase in accrued insurance losses	-	-	145,198	-	-
Increase (decrease) in other liabilities	-	-	-	-	(12)
Net Cash Provided (Used) by Operating Activities	<u>\$ (692,154)</u>	<u>\$ (146,077)</u>	<u>\$ (14,231)</u>	<u>\$ 109,984</u>	<u>\$ (8,563)</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>					
Gifts and conveyances of capital assets	\$ 3,521	\$ -	\$ -	\$ -	\$ -
Assets acquired under capital leases	48,830	-	-	-	89
Change in fair value of investments	7,773	-	10,498	(42)	(397)
Amortization of bond discount and issuance costs	(1,292)	-	-	-	-
Amortization of loss on refunding and bond premium	955	-	-	-	-
(Loss) on disposal of capital assets, net	(6,434)	-	-	-	-
Amortization of deferred rent	4,900	-	-	-	-
Refinancing of long-term debt	43,545	-	-	-	-
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ 101,798</u>	<u>\$ -</u>	<u>\$ 10,498</u>	<u>\$ (42)</u>	<u>\$ (308)</u>

The beginning cash and cash equivalents balance at July 1, 2003 was restated for 1) the Universities due to the reclassification of investments with bond trustee to cash equivalents based on a new assessment of those investments and 2) the Industrial Commission special fund due to the reclassification of pending investment transactions from cash to a receivable or payable.

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

TOTAL ENTERPRISE FUNDS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUNDS
881,086	-
78,581	19
(1,279)	-
(1,160,608)	-
(1,351)	-
<u>(203,571)</u>	<u>19</u>
(156,102)	15,805
1,479,685	69,579
<u>\$ 1,323,583</u>	<u>\$ 85,384</u>

\$ (1,021,180) \$ (7,312)

145,952	13,310
(23,569)	634
(65)	-
(6)	-
-	(2)
4,557	3,636
(910)	(160)
1,494	(32)
(6,010)	8,203
13,768	220
(150)	-
1,510	-
(9,229)	1,672
(2,389)	-
145,198	10,048
(12)	652
<u>\$ (751,041)</u>	<u>\$ 30,869</u>

\$ 3,521	\$ -
48,919	-
17,832	-
(1,292)	-
955	-
(6,434)	-
4,900	-
<u>43,545</u>	<u>-</u>
<u>\$ 111,946</u>	<u>\$ -</u>

STATE OF ARIZONA  
**STATEMENT OF FIDUCIARY NET ASSETS**  
 FIDUCIARY FUNDS  
 JUNE 30, 2004  
 (Expressed in Thousands)

	PENSION TRUSTS	INVESTMENT TRUSTS	AGENCY FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ 19,145	\$ -	\$ 35,661	\$ 54,806
Cash and pooled investments with State Treasurer	-	-	182,184	182,184
Short-term investments	-	-	2,127	2,127
Receivables, net of allowances:				
Accrued interest and dividends	97,386	3,952	113	101,451
Securities sold	309,235	-	-	309,235
Forward contract receivable	1,817,679	-	-	1,817,679
Contributions	28,180	-	-	28,180
Court fees	298	-	-	298
Miscellaneous receivables	1,719	-	1,064	2,783
Total receivables	<u>2,254,497</u>	<u>3,952</u>	<u>1,177</u>	<u>2,259,626</u>
Due from others	-	-	89,446	89,446
Investments, at fair value:				
Temporary investments	1,993,462	-	-	1,993,462
Temporary investments from securities lending	2,289,996	-	-	2,289,996
U.S. Government securities	3,365,114	967,430	-	4,332,544
Corporate bonds	2,934,757	1,059,669	-	3,994,426
Corporate notes	206,406	-	-	206,406
Corporate stocks	18,493,360	-	-	18,493,360
Real estate mortgages and contracts	26,775	-	-	26,775
Collateral investment pool	1,023,204	-	-	1,023,204
Repurchase agreements	-	801,024	-	801,024
Other investments	292,480	-	-	292,480
Money market fund	15,107	20,077	-	35,184
Total investments	<u>30,640,661</u>	<u>2,848,200</u>	<u>-</u>	<u>33,488,861</u>
Custodial securities in safekeeping	-	-	2,557,950	2,557,950
Other assets	-	-	2,089	2,089
Property and equipment, net of accumulated depreciation	4,629	-	-	4,629
Total Assets	<u>32,918,932</u>	<u>2,852,152</u>	<u>2,870,634</u>	<u>38,641,718</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	1,828,025	-	122,417	1,950,442
Payable for securities purchased	1,021,706	-	-	1,021,706
Accrued liabilities	-	-	7,412	7,412
Obligation under securities loan agreements	3,313,200	-	-	3,313,200
Due to local governments	-	4,853	12,243	17,096
Due to others	-	-	2,728,562	2,728,562
Total Liabilities	<u>6,162,931</u>	<u>4,853</u>	<u>2,870,634</u>	<u>9,038,418</u>
<b>NET ASSETS</b>				
Held in trust for:				
Pension benefits	26,756,001	-	-	26,756,001
Pool participants	-	2,847,299	-	2,847,299
Total Net Assets	<u>\$ 26,756,001</u>	<u>\$ 2,847,299</u>	<u>\$ -</u>	<u>\$ 29,603,300</u>

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

STATE OF ARIZONA  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**  
(Expressed in Thousands)

	PENSION TRUSTS	INVESTMENT TRUSTS	TOTAL
<b>ADDITIONS:</b>			
Member contributions	\$ 521,489	\$ -	\$ 521,489
Employer contributions	510,376	-	510,376
Member purchase of service credit	112,038	-	112,038
Court fees	3,614	-	3,614
Investment income:			
Net increase (decrease) in fair value of investments	3,373,969	(11,056)	3,362,913
Interest income	332,824	41,034	373,858
Dividends	226,485	-	226,485
Real estate	6,996	-	6,996
Other investment income	3,826	-	3,826
Securities lending income	30,492	-	30,492
Total investment income	<u>3,974,592</u>	<u>29,978</u>	<u>4,004,570</u>
Less investment expenses:			
Investment activity expenses	30,564	2,388	32,952
Security lending expenses	22,051	-	22,051
Net investment income	<u>3,921,977</u>	<u>27,590</u>	<u>3,949,567</u>
Capital share and individual account transactions:			
Shares sold	-	4,307,071	4,307,071
Reinvested interest income	-	40,871	40,871
Shares redeemed	-	(4,740,939)	(4,740,939)
Net capital share and individual account transactions	<u>-</u>	<u>(392,997)</u>	<u>(392,997)</u>
Other additions	<u>3,983</u>	<u>-</u>	<u>3,983</u>
Total Additions	<u>5,073,477</u>	<u>(365,407)</u>	<u>4,708,070</u>
<b>DEDUCTIONS:</b>			
Retirement and disability benefits	1,661,885	-	1,661,885
Death benefits	14,859	-	14,859
Refunds to withdrawing members, including interest	56,774	-	56,774
Administrative expense	28,564	-	28,564
Dividends to investors	-	27,590	27,590
Other deductions	10,370	-	10,370
Total Deductions	<u>1,772,452</u>	<u>27,590</u>	<u>1,800,042</u>
Change in net assets held in trust for:			
Pension benefits	3,301,025	-	3,301,025
Pool participants	-	(392,997)	(392,997)
Net Assets - Beginning, as restated	<u>23,454,976</u>	<u>3,240,296</u>	<u>26,695,272</u>
Net Assets - Ending	<u>\$ 26,756,001</u>	<u>\$ 2,847,299</u>	<u>\$ 29,603,300</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-----	63	D. Leases and Installment Purchases-----	95
A. Reporting Entity-----	63	E. Litigation-----	97
B. Basis of Presentation-----	66	F. Compensated Absences-----	97
C. Measurement Focus and Basis of Accounting-----	68	G. Changes in Long-Term Obligations-----	98
D. Cash and Investments-----	68	Note 7. Interfund Transactions-----	99
E. Taxes Receivable-----	69	Note 8. Accounting Changes and Restatements-----	100
F. Inventories-----	69	A. Fund Financial Statements-----	100
G. Property Tax Calendar-----	69	B. Government-Wide Statement-----	100
H. Capital Assets-----	69	Note 9. Fund Deficit-----	100
I. Investment Income-----	70	Note 10. Joint Venture-----	101
J. Scholarship Allowances-----	70	Note 11. Commitments, Contingencies and Compliance	101
K. Deferred Revenue-----	70	A. Risk Management Insurance Losses-----	101
L. Compensated Absences-----	70	B. Litigation-----	103
M. Long-Term Obligations-----	71	C. Accumulated Sick Leave-----	104
Note 2. Cash and Investments-----	71	D. Unclaimed Property-----	104
A. Cash and Investment Policies-----	71	E. Construction Commitments-----	104
B. Unemployment Compensation-----	72	F. Arizona State Lottery-----	105
C. Collateral and Insurance-----	73	Note 12. Tobacco Settlement-----	105
D. Deposits Collateralization-----	73	Note 13. Public-Private Partnership-----	105
E. Investments Custodial Risk-----	74	Note 14. Conduit Debt-----	105
F. Securities Lending-----	75	Note 15. Subsequent Events-----	106
G. Derivatives-----	77	Note 16. Summary of Significant Accounting Policies- Component Units-----	107
H. Custodial Securities-----	78	A. Measurement Focus and Basis of Accounting-----	107
I. State Treasurer’s Separately Issued Financial Statements-----	78	B. Cash and Investments-----	109
Note 3. Receivables/Deferred Revenue-----	79	C. Program Loans-----	110
A. Taxes Receivable-----	79	D. Direct Financing Lease Agreement-----	111
B. Deferred Revenue-----	80	E. Pledges Receivable-----	111
Note 4. Capital Assets-----	81	F. Capital Assets-----	112
Note 5. Retirement Plans-----	82	G. Long-Term Obligations-----	113
A. Plan Descriptions-----	82	H. Accounting Changes and Restatements-----	118
B. Summary of Significant Accounting Policies-----	83	I. Related Party Transactions-----	118
C. Investment Restrictions-----	83	J. Joint Venture-----	119
D. Funding Policy-----	84	K. Subsequent Events-----	119
E. Annual Pension Cost-----	84	L. Condensed Financial Statement Information-----	120
F. Trend Information-----	85		
G. Universities’ Retirement Plans-----	85		
H. Postemployment Benefits-----	85		
Note 6. Long-Term Obligations-----	87		
A. Revenue Bonds-----	87		
B. Grant Anticipation Notes-----	90		
C. Certificates of Participation-----	91		

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**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 applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

**A. REPORTING ENTITY**

The State of Arizona is a general purpose government. The accompanying financial statements present the activities of the State (the primary government) and its component units. Component Units' footnote disclosures are presented in Note 16. – *Summary of Significant Accounting Policies – Component Units.*

***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. The State has no blended component units. 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 GASB.

During fiscal year 2004, the State of Arizona implemented GASB Statement No. 39 – *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14. GASB 39 provides additional guidance in determining whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

The 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.

In addition, GASB 39 requires that legally separate, tax-exempt entities that meet *all* of the following criteria should be discretely presented as component units: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents, (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization, and (3) The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The State reports the following component units:

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

Arizona Power Authority (APA) – The APA purchases the State's allocation of power produced at the federally owned Boulder Canyon Project hydropower plant and resells it to Arizona entities that are eligible purchasers under federal and state laws. The APA is governed by a commission of five members appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among their membership for a term of

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

two years. All revenue bonds issued by the APA must be approved by the State Certification Board. Complete financial statements may be obtained from the Arizona Power Authority's administrative offices at 1810 West Adams Street, Phoenix, Arizona 85007-2697, (602) 542-4263

Water Infrastructure Finance Authority (WIFA) – The WIFA is authorized to administer the Clean Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act, which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has also entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors. The 10 Governor appointed directors serve staggered terms of five years and serve at the pleasure of the Governor. Complete financial statements may be obtained from the Water Infrastructure Finance Authority's administrative offices at 1100 West Washington, Suite 290, Phoenix, Arizona 85007, (602) 364-1310.

Component units of the State affiliated with the Universities are legally separate, tax-exempt organizations controlled by separate Boards of Directors that meet the criteria established in GASB Statement No. 39, with the exception of the Collegiate Golf Foundation and Campus Research Corporation. The Collegiate Golf Foundation is included because it is a legally separate organization that the State believes would be misleading to exclude due to its financial relationship to the State. The Campus Research Corporation (CRC) is included because the University of Arizona (U of A) appoints a majority of the board of directors and approves the budget; the U of A can thus impose its will on CRC.

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

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

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

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

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

Price-Elliott Research Park, Inc. - Price Elliott Research Park, Inc., is developing a research park to promote and support research activities in coordination with ASU.

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

Arizona Capital Facilities Finance Corporation (ACFFC) and Mesa Student Housing, LLC. - These two foundations are providing facilities for either the use by students of ASU or ASU itself.

Southern Arizona Capital Facilities Finance Corporation (SACFFC) - SACFFC acquires, constructs, and operates student housing for the benefit of the U of A.

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.

Law College Association of the U of A (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.

Campus Research Corporation (CRC) - The CRC was established to assist the U of A in the acquisition, improvement, and operation of the UA Science and Technology Park (Park) and related properties. CRC currently leases from the U of A the remaining 32% of building space of the Park not leased to the Arizona Research Park Authority. CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed



STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

space, and space now occupied by IBM or its subtenants once the current subleases expire. The U of A is responsible for payment of operational expenses associated with the space occupied by the U of A departments, offices, and programs.

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

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

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

ASU Foundation, ASU Alumni Association, Sun Angel Foundation, Sun Angel Endowment, Price-Elliott Research Park, Inc., Collegiate Golf Foundation, Arizona Capital Facilities Finance Corporation (ACFFC), and Mesa Student Housing, LLC - Arizona State University, Financial Services, P.O. Box 875812, Tempe, Arizona 85287-5812 or (480) 965-3601.

SACFFC - U of A, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310

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

Law College Association of the U of A - P.O. Box 210176, Tucson, Arizona 85721-0176

Campus Research Corporation - University of Arizona Science and Technology Park, 9040 South Rita Road, Suite 1400. Tucson, Arizona 85747

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

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

***Related Organizations***

Related organizations are legally separate entities for which the State is not considered to be financially accountable, and that do not meet the criteria established by GASB Statement No. 39. The State's accountability for these organizations does not extend beyond making the appointments, nor are the economic resources accessible to the State. As a result, financial activity for the organizations described below is not included in the State's financial statements.

Arizona Health Facilities Authority (the Authority) – Arizona Revised Statutes (ARS) §36-482 established the Authority to issue tax-exempt bonds and loans for the purpose of reducing health care costs and improving health care for Arizona residents by providing less expensive financing for health care institutions. Proceeds from bond issues are loaned to various qualifying nonprofit health care institutions. The health care institutions reimburse the Authority for expenses for issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years, and can be removed for cause or at will by the Governor with the consent of the Senate.

Arizona International Development Authority (the Authority) – ARS §41-1553 established the Authority to facilitate the development of international trade or commerce between Arizona and other countries. The Authority is governed by a seven-member board of directors appointed by the Governor for five-year terms, and can be removed only for cause.

Arizona Tourism and Sports Authority (the Authority) – ARS §5-802 established the Authority to construct, finance, maintain, improve, operate, market and promote the use of a multipurpose facility and do all things necessary to accomplish those purposes. The Authority may issue revenue bonds in such principal amounts to accomplish the above stated purposes. The Authority is governed by a nine-member board of directors of which five are appointed by the Governor and approved by the

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

Senate and two members each by the President of the Senate and the Speaker of the House. The directors serve terms of five years, and may be re-appointed for one full subsequent term, and can be removed only for cause.

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

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

**Joint Ventures**

As described in Notes 10 and 16 respectively, the University of Arizona and the University Medical Center both participate in joint ventures. In accordance with U.S. generally accepted accounting principles, 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 (the State) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the State and between the State and its discretely presented component units. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

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

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

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

The State does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for goods, services, privileges provided, and fines or forfeitures,

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

- operating grants and contributions, and
- 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 or business-type activities are presented as internal balances and are eliminated in the total column. Revenues and expenses associated with reciprocal transactions within governmental or within business-type activities have not been eliminated.

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

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major enterprise funds:

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

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

*The Industrial Commission Special Fund* - accounts for deposits not to exceed 1½% of all premiums received by the State Compensation Fund and private insurance carriers during the preceding calendar year. These monies are used to provide additional awards as necessary to enable injured employees to accept the benefits of any law for promotion of vocational rehabilitation of persons disabled in industry. In addition, benefits may be paid for workers' compensation claims filed by employees of non-insured employers. The Industrial Commission then pursues against the non-insured employer for reimbursement of all benefits paid, including assessed penalties.

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

Additionally, the State reports the following fund types:

*Internal Service Funds* - account for insurance coverage, employee benefits, automotive maintenance and operation, highway equipment rentals, and data processing and telecommunication services provided to State agencies on a cost-reimbursement basis. It is the policy of the State to classify immaterial proprietary fund activities in governmental funds. This policy helps to reduce the number of funds reported in the financial statements to the minimum amount needed. These funds allocate a fixed

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

rate payroll processing charge among all agencies, allocate postage and mailing costs among all agencies, and arrange for the sale of the State's office equipment and motorized vehicles at public auctions.

*Pension Trust Funds* - account for the activities of the Arizona State Retirement System, the Public Safety Personnel Retirement System, the Elected Officials' Retirement Plan, and the Corrections Officer Retirement Plan, for which the State acts as a trustee. These retirement plans accumulate resources to pay pension 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, where the State acts as an agent for distribution to other governments and organizations.

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

The government-wide, proprietary fund, and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenues as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 31 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

### **D. CASH AND INVESTMENTS**

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

- *Cash (not with State Treasurer)* - cash includes undeposited 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* - the State Treasurer maintains a centralized management of most State cash resources. 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.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

- *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.

*Investments (not with State Treasurer)* – investments are stated at fair value or amortized cost which approximates fair value, except for Treasurer’s Custodial Securities of the Agency Funds, which are reported at par value.

**E. TAXES RECEIVABLE**

Taxes receivable include amounts owed by taxpayers for the 2003 and prior calendar years including assessments for underpayments, penalties and interest. In the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting. In the governmental fund financial statements, revenue is recorded using the modified accrual basis of accounting. The remainder is recorded as deferred revenues.

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, and payments with final returns and assessments that relate to income earned through June 30, 2004. Sales and motor vehicle and fuel tax receivable represent amounts that are earned by the State in the fiscal period ended June 30, 2004, 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. In the Governmental Funds, inventories are accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

**G. PROPERTY TAX CALENDAR**

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

**H. CAPITAL ASSETS**

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

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

Depreciable capital assets are depreciated on a straight-line basis. Capitalization thresholds (the dollar values above 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 (yrs)	Capitalization Threshold	Estimated Useful Life (yrs)
Land	All capitalized	Not depreciated	All capitalized	Not depreciated
Buildings	All capitalized	25-40	\$300-\$100,000	5-50
Improvements other than buildings	\$5,000	15	\$300-\$5,000	1-40
Equipment	\$5,000	3-15	\$0-\$5,000	3-25
Infrastructure	All capitalized	Not depreciated	\$5,000-\$100,000	10-100

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

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

The State has interest in, and maintains significant special collections, works of art, and historical treasures. All special collections, works of art, and historical treasures which are held for financial gain are capitalized at fair market value at the date of acquisition or donation. Those special collections, works of art, and historical treasures which are held for educational, research, or public exhibition purposes are not capitalized, as they are not subject to disposal for financial gain or encumbrance. Such items are inventoried for property control purposes.

Additional disclosures related to capital assets and assets acquired through capital leases are provided in Notes 4 and 6, respectively.

**I. INVESTMENT INCOME**

Investment income is composed of interest, dividends, and net changes in fair value of applicable investments.

**J. SCHOLARSHIP ALLOWANCES**

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

**K. DEFERRED REVENUE**

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

**L. COMPENSATED ABSENCES**

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as required by 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 University employees, an employee forfeits accumulated annual leave in excess of 240 hours at the end of a calendar year, unless the Director of the Department of Administration authorizes an exception. University employees may accumulate up to 264 hours of vacation, and any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Except for University employees, an employee who separates from State service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation. University employees, upon termination of employment, are paid all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status.

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

Sick leave includes any approved period of paid absence granted an employee due to illness, injury or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. Because sick leave benefits do not vest with employees, a liability for sick leave is not accrued in the financial statements. However, State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more, with a maximum of 1500 hours, upon retirement directly from State service (See Note 11.C).

**M. LONG-TERM OBLIGATIONS**

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Amounts due within one year are reported as current liabilities, and amounts due thereafter are reported as non-current liabilities. Premiums and discounts on revenue bonds and certificates of participation are deferred and amortized over the life of the debt instrument using the straight-line method. Bonds and certificates of participation are reported net of the applicable premium or discount. Except for the Arizona Department of Transportation, bond issuance costs are immaterial and are charged to expense in the period incurred.

In the fund financial statements, governmental fund types recognize proceeds from revenue bonds, certificates of participation, and premiums and discounts on revenue bonds and certificates of participation as other financing sources and uses in the current period. Long-term liabilities are more fully described in Note 6.

**NOTE 2. CASH AND INVESTMENTS**

**A. CASH AND INVESTMENT POLICIES**

Cash and cash equivalents are under the control of the State Treasurer, the retirement systems or other administrative bodies. Arizona Revised Statutes §35-312, §35-313 and §35-314 authorize the Treasurer to invest operating, trust and permanent endowment fund monies. Therefore, surplus cash deposited with the State Treasurer by State agencies with a statutory authorization to invest and all General Fund monies are invested by the 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 Treasurer invests in short-term securities and other investments. Provisions of Arizona law restrict these investments to obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities.

The State Treasurer also invests in various mortgage-backed securities for seventeen of the twenty-six investment pools it manages. These securities are reported at fair value on the Statement of Fiduciary Net Assets. In addition, they are reported in aggregate as U.S. Government securities. The securities are purchased to diversify the State's exposure to maturity and credit risks while providing for enhanced yields. The credit risk associated with holding these securities is reduced since all securities are rated AAA by Standard and Poor's and/or Moody's rating service. The market risk associated with holding these securities is linked to maturity risk in that as interest rates rise, the fair value of these securities will fall and prepayment of principal balances will decelerate. When interest rates fall, the fair value of these securities will rise and prepayment of principal balances will accelerate. The mortgage-backed securities are authorized under ARS §35-313.

Statutes enacted by the Legislature authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. Within this broad framework, the retirement systems have chosen to invest in short-term securities and repurchase agreements, obligations of the U.S. Government and its agencies, corporate bonds, common and preferred stocks and mortgages. The Statutes also place certain restrictions on the investment fund portfolios of the retirement systems.

Investments maintained by the State Treasurer are reported at fair value based upon an independent outside pricing service. Investments with a maturity of 91 days or more and all investments with a maturity of 90 days or less that were held at the beginning of the current fiscal year, not valued by the pricing service, are valued using a market price solicited from the selling broker or a second outside pricing service. All investments with a remaining maturity of 90 days or less, that have no available

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

market price, and were not held at the beginning of the current fiscal year, are valued using amortized cost. If different amortized cost values exist, the weighted average amortized cost is given to like investments.

The State Treasurer also maintains external investment pools [the Local Government Investment Pool (LGIP) and Local Government Investment Pool-Government (LGIP – GOV)] with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed.

During the year, the United States Bankruptcy Court for the Southern District of Ohio entered an order confirming the NCFE's Joint Plan of Liquidation. Approximately \$9.5 million was received as an initial payout of funds being held by the Indenture Trustee for NPF-XII securities. As of June 30, 2004, the payout was recorded in the LGIP and the funds were subsequently distributed to the appropriate pool participants in August 2004. The likelihood of recovering the remaining amount is unknown.

The State Treasurer only makes investments that are registered with the Securities and Exchange Commission or issued directly by the U.S. Treasury and federal agencies. The State Treasurer is not an involuntary participant in another entity's external investment pool.

The State Treasurer is not aware of any involuntary participation of local governments in the State's external investment pools. Participants meeting the criteria established under ARS §35-316 are eligible to participate in the pools and are not required to disclose the reason for requesting the account.

The investments of the State Treasurer's Custodial Securities, an Agency Fund, are recorded at par value. The investments are held by the State Treasurer for State agencies that perform a business compliance function.

The investments of the Industrial Commission and the Arizona Coliseum and Exposition Center are reported at fair value.

The Arizona State Retirement System investments are reported at fair value and cost. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis, which approximates fair value. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. The fair value of real estate investments is based on independent appraisals or estimated value.

The Public Safety Personnel, Elected Officials' and Corrections Officer Retirement Systems investments are reported at fair value. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by an outside pricing service. Investments that do not have an established market are reported at estimated fair value.

The investments of the Universities are reported at fair value determined by quoted market prices, except the joint venture, which is reported at cost. Donated land is reported at fair market value at time of donation.

## **B. UNEMPLOYMENT COMPENSATION**

ARS §23-703 requires that unemployment compensation contributions from Arizona employers be deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States that is established and maintained pursuant to Section 1104 of the Social Security Act. The cash on deposit in the trust fund account is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the trust fund account. The Unemployment Compensation Fund, reported as a major proprietary fund, has been established for this purpose.



STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

**C. COLLATERAL AND INSURANCE**

The State requires that deposits and investments with financial institutions be entirely covered by Federal depository insurance or, alternatively, collateralized with surety equal to at least 100% (102% for the Treasurer) of the deposits so collateralized. Cash deposited with banks is collateralized based on bank balances. Surety collateralized includes U.S. Government obligations, State obligations, obligations of counties and municipalities within the State, and certain other securities.

**D. DEPOSITS COLLATERALIZATION**

At June 30, 2004, the carrying amount of the State's deposits for the Primary Government was a deficit of \$32.010 million and \$89.786 million for Fiduciary funds. The cash deficit results from the State Treasurer not reducing investments until the servicing bank presents warrants for payment. At June 30, 2004, the bank balance was \$142.419 million for the Primary Government and \$112.229 million for Fiduciary funds. For the Primary Government bank balances, \$2.200 million was collateralized by Federal depository insurance. The remaining \$140.219 million was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form. For the Fiduciary funds, \$1.603 million was collateralized by Federal depository insurance, \$110.623 million was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form, and \$3 thousand was not collateralized or the securities held in the bank's custodial account with the Federal Reserve were in the bank's name.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**E. INVESTMENTS CUSTODIAL RISK**

The following tables summarize the credit risk of the State's investments (expressed in thousands). Category A includes investments that are insured or registered, or for which securities are held by the State or the State's agent in the State's name. Category B includes uninsured and unregistered investments for which securities are held by the counterparty's agent or trust department in the State's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty, or by its agent or trust department but not in the State's name.

Type of Deposit or Investment	Primary Government			Reported Amount
	A	B	C	
U.S. Government securities	\$ 1,756,060	\$ 229,841	\$ 78,048	\$ 2,063,949
U.S. Government securities on securities loan	8,860	-	-	8,860
Corporate stocks	734,586	-	-	734,586
Corporate stocks on securities loan	1,596	-	-	1,596
Corporate debt	1,616,276	-	-	1,616,276
Corporate debt on securities loan	1,865	-	-	1,865
Repurchase agreements	369,846	-	-	369,846
Other investments	47,214	-	187,643	234,857
Subtotal	<u>\$ 4,536,303</u>	<u>\$ 229,841</u>	<u>\$ 265,691</u>	5,031,835
Investments Not Subject to Custodial Risk:				
Guaranteed Investment Contracts				446
Money market mutual funds				104,214
U.S. Treasury mutual funds				108,454
Mutual Funds-Benchmark Portfolio				5,190
Exchange traded mutual funds				32,010
Equity mutual funds				235
Bond mutual funds				32
Mortgages				1,692
Joint venture				14,000
Collateral Investment Pool				51,959
Investments held by brokers/dealers under Security Loan Program:				
U.S. Government securities				27,361
Corporate stocks				9,999
Corporate debt				13,684
United States Treasury Pooled Investment				759,016
Total Investments				<u>6,160,127</u>
Deposits				<u>(32,010)</u>
Total Cash and Investments				<u>\$ 6,128,117</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

Type of Deposit or Investment	Fiduciary Funds			Reported Amount
	Category			
	A	B	C	
U.S. Government securities	\$ 5,945,058	\$ -	\$ -	\$ 5,945,058
Corporate stocks	14,252,742	3,492,465	-	17,745,207
Corporate debt	4,514,786	-	-	4,514,786
State and local government securities	496,042	-	-	496,042
Repurchase agreements	722,880	-	-	722,880
Other investments	147,713	23,175	481	171,369
Subtotal	<u>\$ 26,079,221</u>	<u>\$ 3,515,640</u>	<u>\$ 481</u>	29,595,342
Investments Not Subject to Custodial Risk:				
Other investment-not categorized				292,479
Short-Term Investment Fund				1,970,287
Real estate				26,775
Collateral Investment Pool				1,023,204
Investments held by brokers/dealers under Security Loan Program:				
U.S. Government securities				1,480,580
Corporate stocks				1,580,845
Corporate debt				226,630
Total Investments				<u>36,196,142</u>
Deposits				<u>89,786</u>
Total Cash and Investments				<u><u>\$ 36,285,928</u></u>

As reported on the Statement of Net Assets and Statement of Fiduciary Net Assets

	Primary Government	Fiduciary Funds
Cash	\$ 190,050	\$ 54,806
Cash with U.S. Treasury	759,016	-
Cash and pooled investments with State Treasurer	2,719,383	182,184
Cash held by trustee	142,176	-
Collateral investment pool	51,959	-
Short-term investments	100,006	2,127
Investments held by trustee	233,624	-
Investments	386,590	33,488,861
Endowment investments	1,545,313	-
Custodial securities in safekeeping	-	2,557,950
Total	<u>\$ 6,128,117</u>	<u>\$ 36,285,928</u>

At June 30, 2004, the State had no commitments to resell securities under yield maintenance agreements.

During the year ended June 30, 2004, the State did not make significant investments in types of investments beyond those enumerated in the preceding tables.

**F. 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. State Treasurer**

The State Treasurer (Treasurer) is permitted by Title 35, Chapter 2, Article 2 of the Arizona Revised Statutes to enter into securities lending transactions. During the fiscal year ended June 30, 2004, there were no violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. At June 30, 2004, the State Treasurer had no securities on loan.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**2. Industrial Commission**

State statutes and Industrial Commission (the Commission) policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, Northern Trust, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2004. Northern Trust's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105% of the market value of securities loaned plus accrued interest. The market value at June 30, 2004 for loaned securities collateralized by cash and non-cash collateral was \$33.409 million and \$12.321 million, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at \$33.996 million and \$12.540 million, respectively at June 30, 2004. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral received on the securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans is 88 days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an average weighted maturity of 24 days as of June 30, 2004. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. Cash open loans can be terminated on demand by either lender or borrower and there were no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Statement of Net Assets. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2004, the Commission had \$33.996 million outstanding as payable for securities lending.

**3. Arizona State Retirement System**

The Arizona State Retirement System (ASRS) is permitted by Arizona Revised Statutes §38-715(D)(3), to enter into securities lending transactions. The ASRS' custodial bank enters into agreements with counterparts to loan securities and have the same securities redelivered at a later date. All securities are eligible for loan (U.S. fixed income securities, U.S. equities, international equities) with a higher percentage of U.S. Treasuries on loan than most other security types. It is the policy of the ASRS to receive as collateral at least 102% of the market value of the loaned securities and maintain collateral at no less than 100% for the duration of the loan. At year-end, the ASRS has no credit risk exposure to borrowers because the amount the ASRS owes the borrowers exceeds the amount the borrowers owe the ASRS. The ASRS records the collateral received as an asset and the same amount as an obligation for securities on loan. Any cash collateral received is invested in short-term investments. The maturities of the investments are closely matched to those of the security loans to avoid interest rate exposure. The ASRS receives a spread for its lending activities. Investments made with cash collateral received are classified as an asset on the Statement of Plan Net Assets. A corresponding liability is recorded as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2004, the ASRS had \$2.3 billion outstanding as payable for securities on loan.

Due to the flow of securities to and from transfer agents and the security loan program, securities occasionally cannot be delivered for a sale or received for a purchase, resulting in a "failed" transaction. Securities with trade dates in June and settlement dates in July result in "outstanding" transactions. Since these securities have contractually changed ownership, receivables and payables result from these transactions. Such transactions resulted in a receivable for securities sold of \$309.2 million and a payable for securities purchased of \$1 billion at June 30, 2004.

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

The Public Safety Personnel Retirement System (PSPRS), the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP) are permitted by Title 38, Chapter 5, Articles 3, 4, and 6 of the Arizona Revised Statutes to

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

enter into securities lending transactions. The PSPRS, EORP and CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, EORP and CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, EORP and CORP require collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2004, the fair value of securities on loan were (expressed in millions):

PSPRS	\$ 806.532
EORP	49.257
CORP	142.269

The PSPRS, EORP and CORP receive a negotiated fee for their loan activities and are indemnified for broker default by the securities lending agent. The PSPRS, EORP and CORP participate in a collateral investment pool. All security loans can be terminated on demand by either the pool participants or the borrower. The total cash collateral investments received for unmatched loans (any loan for which the cash collateral has not been invested for a specific maturity) will have a maximum effective duration of 233 days. And, at least 20% of total collateral investments shall be invested on an overnight basis. All matched loans shall have matched collateral investments. At June 30, 2004, the weighted average maturity was eleven days for all investments purchased with cash collateral from unmatched loans. The PSPRS, EORP, and CORP have no credit risk because the amounts owed to borrowers exceed the amounts borrowers owe to them. Under this program, they have not experienced any defaults or losses on these loans.

#### 5. University of Arizona

During the fiscal year, the U of A engaged in securities lending transactions. The U of A entered into an agreement with Bank of New York, the U of A's custodian, to carry out these transactions. The custodian enters into agreements with brokers to loan securities and have the same securities returned at a later date. It is the policy of the U of A to receive as collateral at least 102% of the market value of the loaned securities and accrued interest, and maintain collateral at no less than 100% for the duration of the loan. At year-end, the U of A had no credit risk to borrowers because the U of A was holding more collateral than the amount of loaned securities outstanding.

The U of A records the collateral received as an asset, which is offset by an obligation recorded under securities lending. During the fiscal year ended June 30, 2004, there were no violations of legal or contractual provisions, and there were no borrower or lending agent default losses. Bank of New York does indemnify the U of A against losses due to borrower defaults. Collateral can be received in the form of U.S. Government securities, letters of credit, or cash. As of June 30, 2004, the custodian has received only cash collateral. Cash collateral received from the borrower is invested in short term securities which, at June 30, 2004, had a weighted average of less than 30 days to either maturity or to the next coupon reset date, in the case of floating rate securities. In general, the average number of days outstanding for securities lent matched the weighted average maturity of collateral investments. Investments, consisting of asset-backed securities, bank notes, corporate floating rate notes, and collateralized repurchase agreements, are held in an account in the name of the U of A. At June 30, 2004, cash collateral investments totaled \$17.963 million with a corresponding market value of securities on loan of \$17.634 million. Securities lent for cash collateral included corporate stocks, corporate bonds, government notes, and government bonds. The U of A or the borrower can terminate all securities loans on demand. The U of A cannot sell or pledge securities received as collateral unless the borrower defaults. The U of A earns a negotiated fee for participating in securities lending activities.

#### G. DERIVATIVES

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

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

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

<b>Category</b>	<b>Purpose</b>
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies.
Futures	Reduce transaction costs; obtain market exposure; enhance returns.
SWAPS	Interest rate risk management; enhance returns.

Generally, derivatives are subject to both market risk and counterparty risk. The derivatives utilized by ASRS internal investment managers typically have no greater market risk than their physical counterparts, and in many cases are offset by exposure elsewhere in the portfolio. All derivatives are reported at fair value.

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

**H. CUSTODIAL SECURITIES**

In accordance with Arizona Revised Statutes, various State agencies deposit securities with the Treasurer for safekeeping. The State agencies have securities in safekeeping with the Treasurer in the form of U.S. Government and agency securities, certificates of deposit, municipal and corporate bonds, and surety bonds at June 30, 2004. These securities are reported in the Fiduciary Agency Fund.

**I. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS**

The State Treasurer issues a separately published Annual Financial Report. The report provides additional information relating to the State Treasurer's total investing activities and the internal and external participants of the Investment Trust Funds. The Investment Trust Funds report on the activities of the Local Government Investment Pools and Central Arizona Water Conservation District Investment Accounts. A copy of the State Treasurer's Office Annual Financial Report can be obtained from their temporary office location until April 30, 2005, at:

State Treasurer's Office  
3443 N. Central, 17<sup>th</sup> Floor  
Phoenix, Arizona 85012-2204

After April 30, 2005, a copy of the State Treasurer's Office Annual Financial Report can be obtained from their office at:

State Treasurer's Office  
1700 W. Washington  
Phoenix, Arizona 85007-2812

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

<b>NOTE 3. RECEIVABLES/DEFERRED REVENUE</b>
---

**A. TAXES RECEIVABLE**

The following table summarizes taxes receivable at June 30, 2004 (expressed in thousands):

Type of Tax	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Unemployment Compensation Fund	Industrial Commission Special Fund	Non-Major Governmental Funds	Government- Wide Total
Sales	\$ 316,080	\$ -	\$ -	\$ -	\$ 2,770	\$ 318,850
Income – individual and corporate	79,799	-	-	-	-	79,799
Insurance premium	34,577	-	-	-	-	34,577
Motor vehicle and fuel	-	60,209	-	-	-	60,209
Luxury	8,044	-	-	-	14,697	22,741
Unemployment	-	-	47,570	-	-	47,570
Other	-	-	-	3,647	-	3,647
Gross taxes receivable	438,500	60,209	47,570	3,647	17,467	567,393
Allowance for uncollectible taxes	(93,172)	-	-	-	-	(93,172)
Net Taxes Receivable	\$ 345,328	\$ 60,209	\$ 47,570	\$ 3,647	\$ 17,467	\$ 474,221

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**B. DEFERRED REVENUE**

At June 30, 2004, the components of deferred revenue, in terms of revenue unavailable and unearned, were as follows (expressed in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total Deferred Revenue</u>
<b>Current Deferred Revenue for Governmental Funds:</b>			
General Fund:			
Delinquent sales tax	\$ 73,326	\$ -	\$ 73,326
Delinquent income tax	24,510	-	24,510
Tobacco settlement	44,863	-	44,863
Child support administrative reimbursements	4,708	-	4,708
Advance insurance premiums	-	2,029	2,029
Advance land lease payments	-	291	291
Public assistance overpayments	1,333	-	1,333
Vaccine & commodity food supplement	-	9,948	9,948
Policyholders' advance premiums	-	17,401	17,401
Federal grants	8,250	-	8,250
Tribal reimbursements	72	-	72
Transportation & Aviation Planning, Highway Maintenance and Safety Fund:			
Notes receivable for real estate mortgage loans	6,859	-	6,859
Land Endowments Fund:			
Land sales receivable	434,042	-	434,042
Land leases receivable	2,569	-	2,569
Advance land lease payments	-	23,553	23,553
Non-Major Funds:			
Public assistance overpayments	1,512	-	1,512
Advance payments for Hawaii/Arizona PMMIS Alliance	-	131	131
Other	-	20	20
Total current deferred revenue for governmental funds	<u>602,044</u>	<u>53,373</u>	<u>655,417</u>
<b>Noncurrent Deferred Revenue for Governmental Funds:</b>			
General fund:			
Advance land lease payments	-	6,587	6,587
Total noncurrent deferred revenue for governmental funds	<u>-</u>	<u>6,587</u>	<u>6,587</u>
Total current and noncurrent deferred revenue for governmental funds	<u>\$ 602,044</u>	<u>\$ 59,960</u>	<u>\$ 662,004</u>
<b>Unearned</b>			
<b>Current Deferred Revenue for Proprietary Funds:</b>			
Universities:			
Unexpended cash advances received	\$ 30,627		
Auxiliary sales and services	6,613		
IBM lease related to acquisition of research park	4,900		
Student tuition and fees	35,960		
Other deferred revenue	939		
Deposits	1,042		
Non-Major Funds:			
Policyholders' advance premiums	4,247		
Magazine subscriptions	3,903		
Total current deferred revenue for proprietary funds	<u>\$ 88,231</u>		
<b>Noncurrent Deferred Revenue for Proprietary Funds:</b>			
Universities:			
IBM lease related to acquisition of research park	\$ 44,570		
Total noncurrent deferred revenue for proprietary funds	<u>\$ 44,570</u>		



STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**NOTE 4. CAPITAL ASSETS**

Capital asset activities for the fiscal year ended June 30, 2004 were as follows (expressed in thousands):

	<b>Primary Government</b>				
	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Adjustments &amp; Reclassifications</b>	<b>Ending Balance</b>
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 1,938,169	\$ 45,691	\$ (25,044)	\$ 11	\$ 1,958,827
Construction in progress	2,184,798	766,388	(1,181,700)	(312,773)	1,456,713
Infrastructure	7,564,773	1,181,700	(155,102)	-	8,591,371
Total capital assets, not being depreciated	<u>11,687,740</u>	<u>1,993,779</u>	<u>(1,361,846)</u>	<u>(312,762)</u>	<u>12,006,911</u>
Capital assets, being depreciated:					
Buildings	1,196,997	19,528	(2,031)	273,699	1,488,193
Improvements other than buildings	129,035	4,235	(27)	6,786	140,029
Equipment	585,903	58,067	(35,282)	27,834	636,522
Infrastructure	6,604	-	-	-	6,604
Total capital assets, being depreciated	<u>1,918,539</u>	<u>81,830</u>	<u>(37,340)</u>	<u>308,319</u>	<u>2,271,348</u>
Less accumulated depreciation for:					
Buildings	(356,439)	(30,958)	1,061	55	(386,281)
Improvements other than buildings	(51,876)	(3,844)	-	99	(55,621)
Equipment	(422,074)	(55,076)	32,334	2,492	(442,324)
Infrastructure	(3,961)	(102)	-	-	(4,063)
Total accumulated depreciation	<u>(834,350)</u>	<u>(89,980)</u>	<u>33,395</u>	<u>2,646</u>	<u>(888,289)</u>
Total capital assets, being depreciated, net	<u>1,084,189</u>	<u>(8,150)</u>	<u>(3,945)</u>	<u>310,965</u>	<u>1,383,059</u>
Governmental activities capital assets, net	<u>\$ 12,771,929</u>	<u>\$ 1,985,629</u>	<u>\$(1,365,791)</u>	<u>\$ (1,797)</u>	<u>\$ 13,389,970</u>
	<b>Beginning Balance, as restated</b>	<b>Increases</b>	<b>Decreases</b>	<b>Adjustments &amp; Reclassifications</b>	<b>Ending Balance</b>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 135,095	\$ 3,951	\$ (3,331)	\$ -	\$ 135,715
Construction in progress	133,986	110,249	(79)	(83,881)	160,275
Collections	30,591	778	(315)	-	31,054
Total capital assets, not being depreciated	<u>299,672</u>	<u>114,978</u>	<u>(3,725)</u>	<u>(83,881)</u>	<u>327,044</u>
Capital assets, being depreciated:					
Buildings	2,232,616	178,945	(6,355)	83,479	2,488,685
Improvements other than buildings	2,478	14	-	1	2,493
Equipment	985,669	76,127	(41,302)	42,566	1,063,060
Infrastructure	279,494	9,469	-	(42,172)	246,791
Total capital assets, being depreciated	<u>3,500,257</u>	<u>264,555</u>	<u>(47,657)</u>	<u>83,874</u>	<u>3,801,029</u>
Less accumulated depreciation for:					
Buildings	(866,881)	(68,491)	1,776	(597)	(934,193)
Improvements other than buildings	(19,996)	(1,347)	1	349	(20,993)
Equipment	(667,699)	(69,464)	34,543	(28,228)	(730,848)
Infrastructure	(83,914)	(6,650)	-	28,440	(62,124)
Total accumulated depreciation	<u>(1,638,490)</u>	<u>(145,952)</u>	<u>36,320</u>	<u>(36)</u>	<u>(1,748,158)</u>
Total capital assets, being depreciated, net	<u>1,861,767</u>	<u>118,603</u>	<u>(11,337)</u>	<u>83,838</u>	<u>2,052,871</u>
Business-type activities capital assets, net	<u>\$ 2,161,439</u>	<u>\$ 233,581</u>	<u>\$ (15,062)</u>	<u>\$ (43)</u>	<u>\$ 2,379,915</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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

General government	\$	20,916
Health and welfare		15,307
Inspection and regulation		1,963
Education		759
Protection and safety		28,224
Transportation		14,199
Natural resources		8,612
Total governmental activities	\$	<u>89,980</u>

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

Lottery	\$	176
Industrial Commission		1,133
Universities		142,038
Other		2,605
Total business-type activities	\$	<u>145,952</u>

**NOTE 5. RETIREMENT PLANS**

The State contributes to the four plans described below. The four plans are considered part of the State’s financial reporting entity and are included in the State’s financial statements as Pension Trust Funds.

**A. PLAN DESCRIPTIONS**

The State participates in the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS), the Elected Officials’ Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP). Benefits are established by State statutes and provide retirement, death, long-term disability, survivor and health insurance premium benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions.

The **ASRS** is a cost-sharing, multiple-employer defined benefit pension plan that benefits employees of the State, its political subdivisions and public schools. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2.

The **PSPRS** is an agent, multiple-employer defined benefit pension plan that benefits fire fighters and police officers employed by the State or certain local governments. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and 190 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4.

The **EORP** is a cost-sharing, multiple-employer defined benefit pension plan that benefits all elected State and county officials and judges and certain elected city officials. The EORP is governed by the Fund Manager of the PSPRS according to the provisions of ARS Title 38, Chapter 5, Article 3.

The **CORP** is an agent, multiple-employer defined benefit pension plan that benefits town, city and county detention officers and certain employees of the Arizona Department of Corrections and the Arizona Department of Juvenile Corrections. The CORP is governed by the Fund Manager of the PSPRS and 18 local boards according to the provisions of ARS Title 38, Chapter 5, Article 6.

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

Arizona State Retirement System  
 P.O. Box 33910  
 Phoenix, Arizona 85067-3910  
 (602) 240-2000 or (800) 621-3778

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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

The number of participating government employers as of June 30, 2004 are shown below:

<u>Employer</u>	<u>ASRS</u>	<u>PSPRS</u>	<u>EORP</u>	<u>CORP</u>
Cities and towns	70	127	18	-
Counties and county agencies	14	20	15	12
State	1	1	1	1
Special districts	68	42	-	-
School districts	233	-	-	-
Charter schools	177	-	-	-
Community college districts	10	-	-	-
Dispatchers	-	-	-	5

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As part of the Pension Trust Funds, the financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

For the ASRS, investments are reported at fair value and at cost. Security transactions and any resulting gains or losses are accounted for on a trade-date basis. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis, which approximates fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible. Short-term investments are reported at cost plus accrued interest, which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk. The fair value of real estate investments is based on independent appraisals or estimated value. Net investment income includes net increase in fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

For the PSPRS, EORP and the CORP, investments are reported at fair value. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by one of the world's largest and most prominent fixed-income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned.

**C. INVESTMENT RESTRICTIONS**

Statutes enacted by the Arizona State Legislature restrict the four retirement plans from investing more than five percent of each plan's total assets in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of or fully guaranteed by the U.S. Government. As of June 30, 2004, the four retirement plans are in compliance with the State statutes.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**D. FUNDING POLICY**

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

*Cost-sharing plans* – For the year ended June 30, 2004, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.50 percent long-term disability) of the members’ annual payroll. The State’s contributions to ASRS for the years ended June 30, 2004, 2003 and 2002 were \$87.657, \$37.777 and \$36.605 million, respectively, for the primary government.

In addition, active EORP members were required by statute to contribute 7.00 percent of the members’ annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 7.55 percent of the members’ annual covered payroll, as determined by actuarial valuation. The State’s contributions to EORP for the years ended June 30, 2004, 2003 and 2002 were \$987, \$81 and \$77 thousand, respectively, which were equal to the required contributions for the year.

*Agent plans* – For the year ended June 30, 2004, active PSPRS members were required by statute to contribute 7.65 percent of the members’ annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 7.52 – 28.99 percent. Active CORP members were required by statute to contribute 8.50 percent of the members’ annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 5.51 - 5.56 percent.

**E. ANNUAL PENSION COST**

The State’s annual pension cost and related actuarial data for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2004, is as follows (expressed in thousands):

	PSPRS	CORP
Contribution rates:		
State	7.52% - 28.99%	5.51% - 5.56%
Plan members	7.65%	8.50%
Annual pension cost	\$6,299	\$11,900
Contributions made	\$6,299	\$11,900
Actuarial valuation date	6/30/02	6/30/02
Actuarial cost method	entry age	entry age
Actuarial assumptions:		
Investment rate of return	8.75%	8.75%
Projected salary increases	6.25% - 9.25%	6.25% - 9.25%
includes inflation at	5.25%	5.25%
Cost-of-living adjustments	none	none
Amortization method	level percent open	level percent open
Remaining amortization	20 years	20 years
Asset valuation method	smoothed market value	smoothed market value

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**F. TREND INFORMATION**

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

Contributions Required and Contributions Made				
	Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	6/30/04	\$6,299	100%	\$ 0
	6/30/03	3,951	100%	0
	6/30/02	4,834	100%	0
CORP	6/30/04	11,900	100%	0
	6/30/03	5,789	100%	0
	6/30/02	5,775	100%	0

**G. UNIVERSITIES' RETIREMENT PLANS**

Faculty, academic professional and administrative officers at the three universities (Arizona State University, Northern Arizona University, and University of Arizona) may select one of six retirement plans: the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity), Aetna Life Insurance and Annuity Company (Aetna), The Vanguard Group (Vanguard) or the Arizona State Retirement System (ASRS). The ASRS is a defined benefit plan (described above) and the other five plans are defined contribution plans. The five defined contribution plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. In addition, University of Arizona employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Eligible classified staff belong to the Arizona State Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2004, plan members and the three Universities were each required by statute to contribute an amount equal to seven percent of an employee's compensation, except for an 8.10 percent contribution for the ASRS defined contribution plan.

Contributions to these plans for the year ended June 30, 2004, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	\$ 24,249	\$ 24,249	\$ 48,498
VALIC	2,904	2,904	5,808
Fidelity	4,852	4,852	9,704
Aetna	760	760	1,520
Vanguard	1,684	1,684	3,368
ASRS	126	109	235

**H. POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described, the ASRS offers the Retiree Group Insurance Program and the Health Insurance Premium Benefit Program to eligible retired and disabled members. A retired member is defined as a member actively receiving an annuity benefit and a disabled member is defined as a member receiving a Long-Term Disability (LTD) benefit through the LTD program administered by the ASRS or through their former member employer's group LTD plan.

Pursuant to ARS §38-782, the Retiree Group Insurance Program makes available group health insurance coverage to eligible retired and disabled members and their dependents. Retired and disabled members of the ASRS, the Public Safety Personnel Retirement System, the Elected Officials' Retirement Plan, and the Corrections Officer Retirement Plan may participate if they

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

are no longer eligible for health insurance benefits through their former employer. More than 44,000 coverage agreements currently exist for retired and disabled members and their dependents.

Pursuant to ARS §38-783, retired and disabled members with at least five years of credited service are eligible to participate in the Health Insurance Premium Benefit (subsidy) Program. This assistance is provided to those members that elect group coverage through either the Retiree Group Insurance Program or their former member employer.

The ASRS offers a monthly “subsidy” to decrease the cost of group healthcare insurance offered to all retired and disabled persons of the ASRS, PSPRS, CORP and EORP that is provided by the primary government of the State. The amount of the subsidy provided retired or disabled participants is dependent upon the number of years of credited service; whether the participant is eligible for Medicare coverage; if the participant elects group insurance coverage for spouse or dependents; and if the participant lives in an isolated or rural location of the State. The amount of the monthly subsidy paid on a member’s and their dependents’ behalf toward the cost of group health insurance by the ASRS ranges from \$50 to \$600. The ASRS reimbursed approximately \$83.6 million and \$84.5 million towards the cost of group health insurance coverage for the years ended June 30, 2004 and June 30, 2003, respectively. Employment functions of the retired and disabled members eligible for the “subsidy” are teachers, State employees, and political subdivision employees.

The “subsidy” was enacted by the State Legislature as part of the enabling and operating laws of the ASRS (ARS §§38-782 and 38-783). The actuarial calculation of the ASRS plan liabilities used to assess Annual Required Contribution Rate to all participating employers includes an actuarial dollar amount of approximately \$851 million for fiscal year 2004 (0.35% of the total actuarial liabilities) to fund the health insurance “subsidy” program. The Total Annual Required Contribution Rate for both employers and employees during fiscal year 2004 was 0.70%. The participating ASRS employers and employees make no other contributions for funding the health insurance “subsidy” benefit enacted by the State Legislature.

Total actuarial liabilities of the ASRS, including funding for the healthcare insurance “subsidy”, are determined on a projected unit-credit basis. As the ASRS is a cost-sharing plan, the number of “subsidy” participants and amount contributed for the “subsidy” by each participating employer is not available. Total Net Assets available to pay the “subsidy” for all participants at June 30, 2004, is \$808 million.

The State Legislature in ARS §38-783 has made the payment of the healthcare “subsidy” to retired and disabled participants subordinate to the payment of normal retirement benefits.

During the November 1998 general election, voters added Article XXIX to the State of Arizona Constitution. Article XXIX is titled “Public Retirement Systems.” Article XXIX provided for the following actions:

1. Public retirement systems shall be funded with contributions and investment earnings using actuarial methods and assumptions that are consistent with generally accepted actuarial standards.
2. The assets of the State’s public retirement systems, including investment earnings and contributions, are separate and independent trust funds and shall be invested, administered, and distributed as determined by law solely in the interests of the members and beneficiaries of the public retirement systems.
3. Membership in a public retirement system is a contractual relationship that is subject to Article II, Section 25 of the State’s constitution, and public retirement system benefits shall not be diminished or impaired.

Article II, Section 25 of the State’s constitution indicates that no law impairing the obligation of a contract shall ever be enacted.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 6. LONG-TERM OBLIGATIONS**

**A. REVENUE BONDS**

**Governmental Activities**

**1. Arizona Department of Transportation**

The Arizona Department of Transportation (ADOT) issued Senior and Subordinated Highway Revenue Bonds to provide funds for acquisition of right-of-way and construction of federal, state and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$932.700 million. During the year, Highway Revenue Bonds totaling \$250.560 million were issued to (i) finance portions of the Transportation Board's Five Year Transportation Facilities Construction Program, (ii) pay costs of issuing the Bonds, (iii) pay interest on any bonds issued for highway purposes, and (iv) refund portions of the ADOT's outstanding Senior 1993 A/B bonds in the aggregate principal amount of \$114.745 million.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding \$1.3 billion.

The Maricopa County Regional Area Road Bond Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by ADOT. The Bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The original amount of Transportation Excise Tax Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$488.400 million.

The Bond Resolution adopted by the Transportation Board on July 25, 1986 established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transaction Excise Revenue Bond Resolution adopted by the Board on September 22, 1988, gives the Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reported in the accompanying financial statements. The policies (aggregating \$70.064 million at June 30, 2004) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies, which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2004, the carrying basis was \$7.897 million. At June 30, 2004, the outstanding balance was \$8.50 million.

In fiscal year 2003 (\$103.045 million) and fiscal year 2004 (\$141.000 million), the ADOT refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the accompanying financial statements. Refunded bonds for the ADOT at June 30, 2004 totaled \$192.421 million.

During the year ended June 30, 2004, the ADOT refunded a portion of the Highway Refunding Subordinated Series 1993A/B bonds (\$114.745 million) and all of the 2000 Series A Grant Anticipation Notes (\$26.255 million) to reduce its total debt service payments by \$7.600 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6.838 million.

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**2. School Facilities Board**

On October 3, 2003, the Arizona School Facilities Board issued \$247.125 million of State School Trust Revenue Bonds. The Series 2003A Bonds were issued initially as Auction Rate Securities, and bear interest at Auction Rates for generally successive 28-day Auction Periods. The Series 2003A Bonds may be converted, in whole, to Auction Rate Securities (ARS) bearing interest at Auction Rates determined on the basis of a 7-day Auction Period or, with the consent of the Insurer, to other interest rate modes. As long as there is no continuing Event of Default under the terms of the Indenture, the ARS shall be subject to redemption prior to stated maturity by the Board, at the written direction of the Board, on any ARS Interest Payment Date. The 2003A Bonds mature in 2019. The 2003A Bonds were issued to (i) pay the costs of correcting existing deficiencies in school facilities within the State of Arizona, (ii) pay capitalized interest on the 2003A bonds, and (iii) pay issuance costs of the 2003A Bonds. Net proceeds totaled \$226.465 million, after payment of \$8.304 million of bond issuance costs, and \$12.356 million deposit to the bond reserve account.

**Business-Type Activities**

**3. Universities**

**a. University of Arizona**

The University's bonded debt consists of various issues of system revenue bonds that are generally callable with interest payable semi-annually. Bond proceeds are used to pay for acquiring or constructing capital facilities and infrastructure. Bond proceeds are also used for refunding obligations from previously issued bonds. Principal and interest on bonds are secured by a pledge of tuition and fees, sales and services, auxiliary enterprises, and other charges.

On May 19, 2004, the University sold System Revenue Bonds Series 2004A (2004A Bonds) for \$17.780 million dated June 1, 2004. The 2004A Bonds include \$12.415 million of serial bonds with interest rates ranging from 3.0% to 5.0% and maturity dates ranging from 2005 to 2024. The 2004A Bonds also include \$5.365 million of term bonds with an interest rate of 5.0% due June 1, 2029. The 2004A Bonds with maturity on or after June 1, 2015, are subject to optional redemption without premium. The 2004A Bonds with maturity on June 1, 2029, are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2004A Bonds were sold at a discount of \$18 thousand. The University realized net proceeds of \$17.500 million after payment of \$262 thousand for issuance costs, underwriter discounts, and bond insurance. The net proceeds are being used to finance \$17.500 million of the \$30.000 million Arizona Health Sciences Center's Drachman Hall. The other \$12.500 million will come from gift donations.

Restricted cash and investments are held in trust for capital projects by various commercial banks. Of this amount, \$235.832 million is available for future construction costs, and \$3.057 million is from bond proceed earnings for unrestricted purposes. Trust funds are invested by the trustee in accordance with the Arizona Board of Regent's authorizing resolutions.

In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2004, the outstanding principal balance of the refunded bonds was \$5.515 million, which will be paid by investments held in trust with a fair value of \$5.852 million. These amounts are not included in the accompanying financial statements.

**b. Northern Arizona University**

The University's bonded debt consists of various issues of student housing and system revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring, constructing or renovating capital facilities. System revenue bonds are repaid from pledged gross revenues that primarily consist of student tuition and fees, and certain auxiliary revenues.

In November 2003, the University issued System Revenue Bonds, Series 2003, totaling \$31.0 million. The bonds were issued at interest rates ranging from 2.5% to 5.5%, maturing serially on June 1, 2005, through 2034, secured by a first lien on certain gross revenues, on parity with the Series 1997 System Revenue Bonds, the Series 2002 System Revenue Refunding Bonds, and the Series 2002 System Revenue Bonds. The Series 2003 System Revenue Bonds were issued to finance various capital projects and renovations on the main campus.



STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

In prior years, the University defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in the sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2004, \$270 thousand of such bonds outstanding are considered defeased.

At June 30, 2004, the bond trustee funds, of \$37.293 million held for future construction projects and \$520 thousand held to meet debt service requirements, were invested in money market mutual funds that primarily consist of U.S. government securities. The bond trustees are authorized to purchase and sell securities.

**c. Arizona State University**

In October 2003, the University issued two series of Variable Rate Demand System Revenue Bonds, Series 2003A and 2003B, totaling \$103.000 million. Both series of bonds bear interest at a weekly rate determined by the respective remarketing agent. Both series of bonds have a final maturity date of July 1, 2034. The bonds are subject to conversion, at the option of the Arizona Board of Regents on behalf of the University, to a different or alternate adjustable rate mode, or a fixed rate pursuant to the debt instruments. If not converted, the Series 2003A and Series 2003B bonds will bear interest at a weekly rate not to exceed 12% per annum based upon prevailing market conditions as determined by the respective remarketing agents. The bonds were issued primarily to fund the construction Biodesign Institute A building, infrastructure improvements, and other Tempe campus projects. The interest rates in effect at June 30, 2004 were 1.04% for the Series 2003A bonds and 1.05% for the Series 2003B bonds. The remaining bonds of the University are fixed rate bonds.

The variable rate bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agents. If the remarketing agents are unable to resell the bonds, the University has a Standby Purchase Agreement with Bank of America, N.A. to extend credit through the purchase of the unremarketed bonds.

Assuming all of the \$51.500 million Series 2003A bonds and \$51.500 million Series 2003B bonds are not resold within 90 days, the University would be responsible to make annual installment principal payments of \$20.600 million over a five-year period, plus interest to be calculated as established in the Standby Purchase Agreement. The University has agreed to pay Bank of America, N.A. an annual commitment fee of 0.18% on the outstanding principal for the Standby Purchase Agreement. The Standby Purchase Agreement is valid through October 15, 2008.

In June 2004, the University issued \$39.300 million of system revenue (\$29.500 million) and refunding (\$9.800 million) bonds primarily for the financing of renovation and information technology/telecommunications upgrade projects at the Tempe campus.

The University has pledged portions of its gross revenues towards the payment of debt related to various system revenue bonds outstanding at June 30, 2004. These pledged revenues include student tuition and fees, auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include State appropriations, gifts, endowment income, or other restricted revenues.

The Housing Revenue Bonds are payable from housing revenues as defined in the bond indentures. The Series 1993, 2002, 2003 and 2004 System Revenue Refunding Bonds, and the outstanding Series 1989, 1991, 2000, 2002, 2003 and 2004 System Revenue Bonds are payable from tuition, fees, certain auxiliary enterprises revenues, and certain other revenues as defined in the bond indentures.

The University's fixed rate bonded debt consists of various issues of system revenue bonds that are generally callable at a prescribed date with interest payable semi-annually. In prior years, certain system revenue bonds of the University were defeased through advance refundings by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all such bonds outstanding at June 30, 2004, was \$13.900 million.

Securities and cash restricted for bond debt service funds and maintenance and replacement reserves held by trustees at June 30, 2004 totaled \$17.8 million.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2004 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2004
Governmental Activities:				
Department of Transportation	1989-2004	2005-2023	2.0-8.0%	\$1,306,360
School Facilities Board	2001-2004	2005-2021	.14-5.5%	971,865
Proprietary Funds:				
University Revenue Bonds	1969-2004	2005-2035	1.04-7.13%	756,781

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2004 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	Total
2005	\$ 293,975	\$ 115,739	\$ 409,714	\$ 22,731	\$ 34,009	\$ 56,740
2006	178,120	98,675	276,795	37,490	32,249	69,739
2007	102,780	92,120	194,900	40,820	30,583	71,403
2008	109,055	87,187	196,242	45,125	28,585	73,710
2009	114,935	81,491	196,426	42,110	26,445	68,555
2010-2014	587,480	316,294	903,774	208,890	99,896	308,786
2015-2019	668,830	158,445	827,275	151,035	52,078	203,113
2020-2024	223,050	20,561	243,611	84,875	28,688	113,563
2025-2029	-	-	-	67,535	12,499	80,034
2030-2034	-	-	-	48,700	4,066	52,766
2035	-	-	-	7,470	-	7,470
Total	<u>\$ 2,278,225</u>	<u>\$ 970,512</u>	<u>\$ 3,248,737</u>	<u>\$ 756,781</u>	<u>\$ 349,098</u>	<u>\$ 1,105,879</u>

**B. GRANT ANTICIPATION NOTES**

Grant Anticipation Notes are issued by the Transportation Board and secured by revenues received from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues. The original amount of Grant Anticipation Notes issued in prior years and outstanding at the start of the fiscal year was \$169.145 million. During the year, Grant Anticipation Notes totaling \$199.955 million were issued to (i) pay costs of the projects (as specified), (ii) pay costs of issuing the notes, (iii) pay interest on the notes, and (iv) refund the 2000A Series Notes in the aggregate principal amount of \$26.255 million.

The following schedule summarizes grant anticipation notes outstanding at June 30, 2004 (expressed in thousands):

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2004
Governmental Activities:				
Department of Transportation	2000-2004	2005-2015	2.5-6.0%	\$ 308,585

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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
2005	\$ 49,000	\$ 13,905	\$ 62,905
2006	38,540	11,354	49,894
2007	42,570	9,452	52,022
2008	26,835	8,174	35,009
2009	19,800	7,160	26,960
2010-2014	113,505	21,295	134,800
2015-2019	18,335	897	19,232
Total	\$ 308,585	\$ 72,237	\$ 380,822

**C. CERTIFICATES OF PARTICIPATION**

**1. Department of Administration**

The State has issued Certificates of Participation (COPs) to finance construction or improvements of office buildings that are primarily leased to State agencies. The State’s obligation to make lease payments and any other obligations of the State under the lease are subject to, and dependent upon, annual appropriations made by the State Legislature and annual allocations of such appropriations being made by the Department of Administration for such purpose. The Department of Administration agrees to use its best efforts to budget, obtain, allocate and maintain sufficient appropriated monies to make lease payments. In the event any such appropriation and allocation is not made, the lease will terminate and there can be no assurance that the proceeds for the re-leasing or sale of the project will be sufficient to pay principal and interest with respect to the then outstanding Certificates. The scheduled payments of principal and interest with respect to the Certificates of Participation 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 Certificates of Participation. 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.

Capitalized interest costs include interest incurred during the construction of an asset.

On May 1, 2004, the Department of Administration issued series 2004A Certificates of Participation for \$16.725 million, with interest rates ranging from 2.00% to 5.00%, and maturity dates ranging from 2005 to 2012. The Certificates are being issued to refund all outstanding Certificates of Participation, Series 1993B, dated as of December 1, 1993, originally executed and delivered in the aggregate amount of \$31.250 million and currently outstanding of \$16.645 million, and to pay the costs of issuing the Series 2004A Certificates. The 2004A Certificates are subject to extraordinary redemption prior to maturity in whole at any time, or in part on any interest payment date, from the net proceeds of insurance or condemnation awards, at a redemption price equal to the principal amount represented thereby plus accrued interest to the redemption date, without premium. Net proceeds from the Series 2004A Certificates totaled \$17.096 million, after receipt of a net original issue premium of \$548 thousand and payment of \$177 thousand in underwriter discounts.

The above refunding reduced the State’s debt service requirements by \$864 thousand, which resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$748 thousand.

On May 15, 2004, the Department of Administration issued series 2004B Certificates of Participation for \$31.965 million, with interest rates ranging from 2.50% to 5.25%, and maturity dates ranging from 2006 to 2019. The Certificates are being issued to finance the acquisition of real and personal property, and to fund interest on, and pay the costs of issuing the Series 2004B Certificates. The 2004B Certificates maturing on or after September 1, 2015 are subject to optional redemption prior to maturity, at the option of the Department of Administration. The Certificates are also subject to extraordinary redemption prior to maturity in whole at any time, or in part on any interest payment date, from the net proceeds of insurance or condemnation awards, at a redemption price of the principal amount represented thereby plus accrued interest to the redemption date, without premium. Net

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

proceeds from the Series 2004B Certificates totaled \$33.010 million, after receipt of a net original issue premium of \$1.386 million and payment of \$341 thousand in underwriter discounts.

**2. School Facilities Board**

On September 1, 2003, the Arizona School Facilities Board issued 2003B Certificates of Participation for \$194.610 million, with interest rates ranging from 2.25% to 6.00%, and maturity dates ranging from 2006 to 2019. Series 2003B Certificates maturing on or after September 1, 2014 are subject to optional redemption and payment prior to maturity, at the sole option of the Board. Net proceeds from the Series 2003B Certificates totaled \$199.811 million, after receipt of a net reoffering premium of \$11.311 million, payment of \$1.494 million in underwriter discounts, and payment of capitalized interest of \$4.616 million. The Certificates are being issued to finance the costs of acquiring leasehold interests in school sites and constructing and equipping thereon certain school facilities, which will be subleased to various school districts within the State participation in the Board's Lease-to-Own program, to pay capitalized interest on, and pay the costs of, issuing the 2003B Certificates.

On March 1, 2004, the Arizona School Facilities Board issued 2004A Certificates of Participation for \$47.160 million, with interest rates ranging from 2.00% to 5.00%, and maturity dates ranging from 2006 to 2019. Series 2004A Certificates maturing on or after September 1, 2015 are subject to optional redemption and payment prior to maturity, at the sole option of the Board. Net proceeds from the Series 2004A Certificates totaled \$50.000 million, after receipt of a net reoffering premium of \$3.230 million, and payment of \$390 thousand in underwriter discounts. The Certificates are being issued to finance the costs of acquiring leasehold interests in school sites and constructing and equipping thereon certain school facilities, which will be subleased to various school districts within the State participation in the Board's Lease-to-Own program, and to pay the cost of issuing the 2004A Certificates.

**3. Industrial Commission**

The exempt adjustable mode refunding Certificates of Participation (COPs), Series 1985 were issued to refund the 1984 certificates which were used to finance the cost of acquiring and constructing the building at 800 W. Washington Street, Phoenix, Arizona. The COPs mature serially at six-month intervals and lease payments are made to the trustee, J.P. Morgan Trust Co. The sale-leaseback agreement provides that title will pass to the Commission at the end of the lease term, once the COPs are completely redeemed. The refunded amount was \$17.5 million. This amount has been paid and is not included in the outstanding amounts.

The Trust Indenture for COPs specifies that the rates of specific types of financial instruments must be considered by the remarketing agent in setting the variable interest rates for the COPs. These instruments include the following: other issues of bonds marketed under the TEAMS program or similar programs; variable rate demand bonds; variable rate notes; and fixed rate notes that, in the judgment of the remarketing agent, are otherwise comparable to TEAM certificates in credit quality and length of time prior to which such instruments mature or become subject to purchase at par on the demand of the owner. The interest rate ranged from 1.20% to 1.70% during the fiscal year ended 2004.

**4. University of Arizona**

On October 15, 2003, the University of Arizona (U of A) issued Certificates of Participation Series 2003B for \$153.960 million dated October 1, 2003. The 2003B Certificates include \$113.695 million of serial certificates with interest rates ranging from 2% to 5.25% and maturity dates ranging from 2005 to 2027. The serial certificates maturing on or after June 1, 2015, are subject to optional redemption prior to maturity without premium. The 2003B Certificates also include two sets of term certificates consisting of \$14.455 million with an interest rate of 5% due June 1, 2028, and \$25.810 million with an interest rate of 5% due June 1, 2031. The term certificates maturing on June 1, 2028 and June 1, 2031 are subject to mandatory sinking fund redemption in part on June 1 of the years 2027 through 2030 before maturity without premium. There are also extraordinary redemption dates pursuant to the debt documents. The 2003B Certificates were issued at a premium of \$3.158 million. The U of A realized net proceeds of \$154.742 million after payment of \$2.376 million for issuance costs, underwriters discount and bond insurance. The net proceeds are being used to finance the Thomas W. Keating Bioresearch Building, the Medical Research Building, and the Technology Infrastructure Project to support the new facilities.

On May 19, 2004 and June 4, 2004, the U of A issued Certificates of Participation Series 2004A and B for \$42.020 million and \$41.400 million respectively dated June 1, 2004 for both issues. The 2004A Certificates include \$35.250 million of serial certificates with interest rates ranging from 2.5% to 5.25% and maturity dates ranging from 2005 to 2024. The 2004A serial Certificates maturing on or after June 1, 2015, are subject to optional redemption prior to maturity without premium. The 2004A Certificates also include \$6.770 million of term certificates with an interest rate of 5.125% due June 1, 2029. The 2004A term

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

certificates maturing on June 1, 2029 are subject to mandatory sinking fund redemption in part on June 1 of the years 2025 through 2028 before maturity without premium. There are also extraordinary redemption dates for the 2004A Certificates pursuant to the debt documents. The 2004A Certificates were issued at a premium of \$1.274 million. The 2004B Certificates were issued bearing interest at a weekly rate determined by J.P. Morgan Securities Inc., as the remarketing agent, and were issued without a premium or a discount. The 2004B Certificates are also subject to mandatory sinking fund redemption without premium, by lot, on June 1, 2015 through 2031, the final maturity year. The U of A realized net proceeds for the 2004A and 2004B Certificates of \$83.295 million after payment of \$1.399 million for issuance costs, underwriters discount and bond insurance. The net proceeds are being used to finance the Chemistry Building Expansion, the Highland Avenue Parking Garage, the Residence Life Building Renewal Phase I, and to refund in advance of maturity the Certificates of Participation Series 1994A with an outstanding principal balance of \$11.185 million at June 30, 2004. The advance-refunding generated an economic gain of \$297 thousand (difference between the present values of old debt and new debt service payments) for the U of A. The advance-refunding reduced the U of A's debt service by \$801 thousand in year 1 and \$502 thousand in year 2; however, annual debt service will increase by an average of \$56 thousand in year 3 through year 9 and \$1.5 million in the last year. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$765 thousand. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2013 using the straight-line method. The refunded Certificates of Participation Series 1994A will be paid by investments held in an irrevocable trust with a fair value of \$11.684 million. As a result, the refunded debt is considered to be defeased and is not included in the accompanying financial statements.

The U of A has outstanding at June 30, 2004, three variable rate Certificates of Participation: Series 1999B, 2000A, and 2004B, totaling \$104.200 million. These certificates bear interest at a weekly rate, determined by UBS Financial Services for the 1999B and 2000A Certificates and by J.P. Morgan Securities for the 2004B Certificates, as remarketing agents, with final maturity dates of June 1, 2024, June 1, 2025, and June 1, 2031 respectively. These certificates are subject to conversion, at the option of the Arizona Board of Regents, to an adjustable rate, an annual rate, or a term rate pursuant to the debt documents. If not converted, the 1999B, 2000A, and 2004B certificates will bear interest at a weekly rate not to exceed 12% per year determined under prevailing market conditions by the remarketing agent. The variable rate Certificates of Participation are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to the remarketing agents. If the remarketing agents are unable to resell the demand certificates, the U of A has Standby Purchase Agreements with Bayerische Landesbank to extend credit through the purchase of the un-remarketed certificates. Assuming all of the \$104.200 million COPs are not resold within 90 days, the U of A would be responsible to make annual installment principal payments of \$20.840 million over a five-year period, plus interest to be calculated as established in the Standby Purchase Agreements. Bayerische Landesbank charges the U of A an annual commitment fee on the outstanding principal for each of the Standby Purchase Agreements. The fees are 0.17%, 0.18%, and 0.19% respectively, for the Series 1999B, 2000A, and 2004B Certificates of Participation. The Standby Purchase Agreements are valid through November 30, 2015.

In fiscal year 2003, the U of A refunded, in advance of maturity, the Certificates of Participation Series 1994B and a portion of outstanding Certificates of Participation 2001B. At June 30, 2004, the outstanding principal balances for the Certificates of Participation Series 1994B was \$12.100 million and \$7.020 million for the Certificates of Participation Series 2001B, which will be paid by investments held in trust with a fair value of \$12.568 million and \$7.231 million respectively. These amounts are not included in the accompanying financial statements.

##### **5. Arizona State University**

In April 2004, Arizona State University (ASU) issued \$22.500 million of Refunding Certificates of Participation Series 2004, with an average rate of 2.40% to refund a portion of the outstanding 1993 ASU West refunding Certificates of Participation of \$22.400 million with an average interest rate of 5.18%. The net proceeds of \$23.300 million, after the net addition of \$800 thousand for premium, underwriting fees, and other issuance costs, were used to purchase U.S. Government securities which were deposited into a depository trust fund in order to retire the 2004 and 2006 through 2009 maturities of the 1993 Certificates of Participation. The refunded debt is considered defeased and related liabilities are not included in the accompanying financial statements. The issuance of the refunding Certificates of Participation at a lower interest rate than the rate of the refunded debt resulted in a \$900 thousand reduction in future debt service payments, with an economic gain of \$1.200 million based on the present value savings.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

A summary of the COPs issued as of June 30, 2004, is as follows (expressed in thousands):

Project	Issue Date	Final Maturity Date	Amount Authorized And Issued	Outstanding Balance	Interest Rates
<b>Governmental Activities:</b>					
AHCCCS	1994	2005	\$ 12,642	\$ 1,844	6.66%
Refunding Certificates of 92A, 92C, & 1091	2001	2011	57,930	48,725	3.25 – 5.25
Health Lab/HRIS	2002	2022	63,270	56,750	3.0 – 5.5
Refunding Certificates of 92B	2002	2011	75,295	75,295	2.0 – 5.5
School Facilities Board 2003A	2003	2018	372,730	372,730	1.6 – 5.25
School Facilities Board 2003B	2004	2019	194,610	194,610	2.25 - 6.0
School Facilities Board 2004A	2004	2019	47,160	47,160	2.0 - 5.0
Refunding ADOA Certificates of 93B	2004	2012	16,725	16,725	2.0 - 5.0
ADOA Series 2004B	2004	2019	31,965	31,965	2.5 - 5.25
Total Governmental Activities:			\$ 872,327	\$ 845,804	
<b>Business-Type Activities:</b>					
Industrial Commission Special Fund	1985	2006	\$ 17,500	\$ 4,600	Variable
Arizona State University:					
Towers Project	1991	2010	4,500	2,385	6.89
West Campus - Refunding	1993	2005	46,905	4,070	5.18
Downtown Center – A	1999	2024	5,620	5,230	5.75
Downtown Center – B	1999	2024	5,165	4,900	8.00
2002 Certificates of Participation	2002	2026	103,800	99,885	4.75
2004 West Campus – Refunding	2004	2009	22,495	22,495	2.36
University of Arizona:					
Fixed Student Union A	1999	2024	21,607	22,275	5.0 – 5.3
Student Union B	1999	2024	36,500	36,500	Variable not to exceed 12
Parking Garage/Res. Life Certificates	1999	2024	18,635	18,105	4.2 – 5.75
McKale/UAPD/Mt. Graham	2000	2025	28,300	26,300	Variable not to exceed 12
Park Std Union, Learning Svcs., 6 <sup>th</sup> St Garage, TEP Bldg.	2001	2025	31,695	31,115	3.4 – 5.5
Gittings Bldg., Highland Infra., Life Sci.	2001	2022	21,425	13,385	3.0 – 5.125
Student Housing, Health Bldg., UA North	2002	2022	76,965	72,230	3.75 – 5.5
Meinel Bldg & Refund COPS 1994B	2002	2023	29,845	29,845	3.0 – 5.125
Refund COPS 1997 & Portion of Series 2001B	2003	2022	10,615	10,615	3.5 – 5.0
Med. Research Bldg./Biores Bldg./Tech. Instr.	2004	2031	153,960	153,960	2.0 - 5.25
Chem.Bldg./Res.Life/Pkg.Garage/Rfnd.COPS	2004	2029	42,020	42,020	2.5 - 5.25
Chemical Building Expansion	2004	2031	41,400	41,400	Variable not to exceed 12
Total Business-type Activities:			\$ 718,952	\$ 641,315	
<b>Total Certificates of Participation:</b>			<b>\$ 1,591,279</b>	<b>\$ 1,487,119</b>	

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

Principal and interest debt service requirements on COPs outstanding at June 30, 2004, 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
2005	\$ 30,957	\$ 39,431	\$ 70,388	\$ 10,570	\$ 27,440	\$ 38,010
2006	46,211	38,255	84,466	17,425	26,649	44,074
2007	47,710	36,307	84,017	16,735	26,097	42,832
2008	49,420	34,408	83,828	22,150	25,497	47,647
2009	51,395	32,239	83,634	23,025	24,695	47,720
2010-2014	293,480	122,122	415,602	124,663	109,733	234,396
2015-2019	318,210	39,938	358,148	157,566	78,114	235,680
2020-2024	8,421	880	9,301	169,146	39,351	208,497
2025-2029	0	0	0	75,955	13,493	89,448
2030-2031	0	0	0	24,080	1,504	25,584
Total	<u>\$ 845,804</u>	<u>\$ 343,580</u>	<u>\$ 1,189,384</u>	<u>\$ 641,315</u>	<u>\$ 372,573</u>	<u>\$ 1,013,888</u>

**D. LEASES AND INSTALLMENT PURCHASES**

**1. Leases**

The total operating lease expenses for the fiscal year ended June 30, 2004, were \$29.812 million for governmental activities and \$18.528 million for business-type activities. The future minimum lease payments for long-term operating leases as of June 30, 2004, are summarized below (expressed in thousands):

Fiscal Year	Governmental Activities	Business-type Activities	Total
2005	\$ 26,621	\$ 2,698	\$ 29,319
2006	19,657	2,393	22,050
2007	13,319	1,956	15,275
2008	5,867	1,667	7,534
2009	2,492	313	2,805
2010-2014	531	-	531
Total Minimum Lease Payments	<u>\$ 68,487</u>	<u>\$ 9,027</u>	<u>\$ 77,514</u>

Many operating leases are for buildings and land leased by State agencies. Although these leases are considered to be long-term, they are cancelable under certain circumstances.

- \* An agency must be able to cancel the lease if monies are not appropriated to cover the lease expenditures.
- \* If an agency is ordered to move into State-owned property and a 60-day notice is given, the lease can be canceled without penalty.
- \* In situations where the use of the leased property is dependent on the use of Federal monies, the lease must be cancelable in the event Federal monies are no longer available.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

The State has entered into capital lease agreements for the acquisition of buildings, telephone systems, copy machines and other equipment. Capital leases' assets and liabilities are reported on the government-wide Statement of Net Assets. A lease is reported as a capital lease if one or more of the following criteria is 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 criteria 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 market value of the lease asset. (This criteria 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, 2004 are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2005	\$ 11,996	\$ 7,780
2006	12,750	7,550
2007	12,913	6,999
2008	13,107	5,450
2009	13,132	5,362
2010-2014	61,450	19,407
2015-2019	69,731	11,349
2020-2024	79,099	12,167
2025-2029	57,083	21,827
2030-2032	-	2,659
Total minimum lease payments	331,261	100,550
Less: amount representing interest	(100,446)	(20,212)
Less: amount representing executory costs	(104,841)	-
Obligations under capital leases	<u>\$ 125,974</u>	<u>\$ 80,338</u>



STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**2. Installment Purchases**

The State has installment purchase contracts payable for acquisitions of computer and other equipment. Installment purchases assets and liabilities are reported in the government-wide Statement of Net Assets.

The future minimum payments for long-term installment purchases as of June 30, 2004, are summarized below (expressed in thousands):

Fiscal Year	Annual Debt Service	
	Governmental Activities	Business-type Activities
2005	\$ 2,115	\$ 1,180
2006	1,111	1,074
2007	739	867
2008	595	511
2009	280	446
2010-2014	-	1,613
2015-2019	-	342
Total future minimum payments	4,840	6,033
Less: amount representing interest	(238)	(995)
Obligations under installment purchases	\$ 4,602	\$ 5,038

**3. Capital Assets Financed through Capital Leases and Certificates of Participation**

The following table summarizes the historical costs of assets acquired under capital leases and certificates of participation:

	Governmental Activities	Business-type Activities
Land	\$ 6,078	\$ -
Construction in Progress	26,463	-
Buildings	280,986	428,714
Improvements other than Buildings	3,653	-
Equipment	45,768	-
	362,948	428,714
Less: Accumulated Depreciation	(91,667)	(46,063)
Carrying Value	\$ 271,281	\$ 382,651

**E. LITIGATION**

The amounts shown for the *Ladewig vs. Arizona Department of Revenue* settlement and the *Schofield vs. State of Arizona* settlement are further discussed in Note 11 – *Commitments, Contingencies, and Compliance*. The State has typically paid for litigation from the General Fund.

**F. 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 2004, the State paid for compensated absences as follows: 78% from the General Fund, 12% from other major funds and 10% from other funds.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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

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

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Due Within One Year	Due Thereafter
<b>Governmental Activities:</b>						
Long-term Debt:						
Revenue Bonds	\$ 2,173,055	\$ 497,685	\$ (392,515)	\$ 2,278,225	\$ 293,975	\$ 1,984,250
Grant Anticipation Notes	169,145	199,955	(60,515)	308,585	49,000	259,585
Certificates of Participation	582,511	290,460	(27,167)	845,804	30,957	814,847
Capital Leases	104,644	26,379	(5,049)	125,974	2,306	123,668
Installment Purchase Contracts	6,188	2,684	(4,270)	4,602	1,999	2,603
Notes Payable	10,301	-	(9,739)	562	562	-
Revenue Bond Premium	70,222	22,024	(8,560)	83,686	8,955	74,731
Certificates of Participation Premium	38,510	17,187	(4,247)	51,450	4,006	47,444
Grant Anticipation Note Premium	-	9,623	-	9,623	-	9,623
Total Long-term Debt	<u>3,154,576</u>	<u>1,065,997</u>	<u>(512,062)</u>	<u>3,708,511</u>	<u>391,760</u>	<u>3,316,751</u>
Other Long-term Liabilities:						
Compensated Absences	144,537	171,377	(169,798)	146,116	142,487	3,629
Ladewig vs. Arizona Department of Revenue Settlement	339,414	-	(47,668)	291,746	134,280	157,466
Schofield vs. State of Arizona Settlement	11,400	1,300	-	12,700	2,000	10,700
Total Other Long-term Liabilities	<u>495,351</u>	<u>172,677</u>	<u>(217,466)</u>	<u>450,562</u>	<u>278,767</u>	<u>171,795</u>
Total Long-term Obligations	<u>\$ 3,649,927</u>	<u>\$ 1,238,674</u>	<u>\$ (729,528)</u>	<u>\$ 4,159,073</u>	<u>\$ 670,527</u>	<u>\$ 3,488,546</u>
<b>Business-type Activities:</b>						
Long-term Debt:						
Revenue Bonds	\$ 597,238	\$ 191,030	\$ (31,487)	\$ 756,781	\$ 22,731	\$ 734,050
Certificates of Participation	429,144	260,026	(47,855)	641,315	10,570	630,745
Capital Leases	31,923	58,575	(10,160)	80,338	6,795	73,543
Installment Purchase Contracts	3,823	2,274	(1,059)	5,038	968	4,070
Notes Payable	129	-	(49)	80	50	30
Revenue Bond Premium	19,135	7,793	(2,143)	24,785	985	23,800
Deferred Amount on Refundings – Revenue Bonds	(11,305)	(1,102)	2,569	(9,838)	(1,029)	(8,809)
Certificates of Participation Premium	2,551	1,045	(197)	3,399	-	3,399
Deferred Amount on Refundings – COP's	-	(1,176)	44	(1,132)	-	(1,132)
Total Long-term Debt	<u>1,072,638</u>	<u>518,465</u>	<u>(90,337)</u>	<u>1,500,766</u>	<u>41,070</u>	<u>1,459,696</u>
Other Long-term Liabilities:						
Compensated Absences	47,588	57,222	(53,794)	51,016	8,859	42,157
Total Other Long-term Liabilities	<u>47,588</u>	<u>57,222</u>	<u>(53,794)</u>	<u>51,016</u>	<u>8,859</u>	<u>42,157</u>
Total Long-term Obligations	<u>\$ 1,120,226</u>	<u>\$ 575,687</u>	<u>\$ (144,131)</u>	<u>\$ 1,551,782</u>	<u>\$ 49,929</u>	<u>\$ 1,501,853</u>

The above long-term obligations relating to governmental activities include internal service funds. Amounts for notes payable and compensated absences differ from those in the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets because liabilities of \$562 thousand of notes payable and \$11.052 million of compensated absences are attributable to internal service funds. These amounts are included in the reconciliation as part of internal service fund net assets.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**NOTE 7. INTERFUND TRANSACTIONS**

**INTERFUND BALANCES AND TRANSFERS**

**Interfund Receivables/Payables**

Interfund balances, as of June 30, 2004, are 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	Non-Major Enterprise Funds	Internal Service Funds	Total Due To
General Fund	\$ -	\$ -	\$ 214	\$ 33,315	\$ 305	\$ 2,217	\$ 36,051
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	62,325	-	-	5,967	106,261	-	174,553
Land Endowments Fund	1,686	-	-	5,130	-	-	6,816
Non-Major Governmental Funds	23,371	-	-	1,147	-	586	25,104
Unemployment Compensation Fund	4	-	-	177	-	-	181
Lottery Fund	4,431	-	-	3,872	-	-	8,303
Non-Major Enterprise Funds	142,414	20,000	-	-	-	2	162,416
Internal Service Funds	1,661	-	-	4	-	24	1,689
Total Due From	\$ 235,892	\$ 20,000	\$ 214	\$ 49,612	\$ 106,566	\$ 2,829	\$ 415,113

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.

An interfund balance of \$61.397 million between the General Fund and the Transportation & Aviation Planning, Highway Maintenance & Safety Fund is not due until fiscal year 2008. The entire interfund balance between the General Fund and Non-Major Enterprise Funds is not due until fiscal year 2008. The entire interfund receivable in the Transportation & Aviation Planning, Highway Maintenance & Safety Fund is not due until fiscal year 2009. An interfund balance of \$103.346 million between the Transportation & Aviation Planning, Highway Maintenance & Safety Fund and Non-Major Enterprise Funds is not due until fiscal year 2008.

**Interfund Transfers**

Transfers for the year ended June 30, 2004 are as follows (expressed in thousands):

Transferred From	Transferred To					
	General Fund	Transportation & Aviation Planning, Highway Maintenance & Safety Fund	Non-Major Governmental Funds	Universities	Non-Major Enterprise Funds	Total Transfers Out
General Fund	\$ -	\$ 731	\$ 43,175	\$ 741,487	\$ 2,989	\$ 788,382
Transportation & Aviation Planning, Highway Maintenance & Safety Fund	18,938	-	508,770	-	282	527,990
Land Endowments Fund	-	-	5,071	-	-	5,071
Non-Major Governmental Funds	228,076	53,772	12,691	-	123	294,662
Unemployment Compensation Fund	17	-	1,637	-	-	1,654
Lottery Fund	37,929	-	24,572	-	-	62,501
Non-Major Enterprise Funds	2,000	-	-	-	-	2,000
Internal Service Funds	1,657	-	1,014	-	-	2,671
Total Transfers In	\$ 288,617	\$ 54,503	\$ 596,930	\$ 741,487	\$ 3,394	\$ 1,684,931

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, 2004

**NOTE 8. ACCOUNTING CHANGES AND RESTATEMENTS**

**A. FUND FINANCIAL STATEMENTS**

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

	Universities	Investment Trusts	
Fund Balances, as previously reported	\$ 1,746,807	\$ 3,192,544	
Change in application of an accounting principle	(22,095)		
Prior year correction of errors		47,752	
Fund Balances/Net Assets, as restated	\$ 1,724,712	\$ 3,240,296	

**B. GOVERNMENT-WIDE STATEMENT**

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

	Governmental Activities of Primary Government	Business-type Activities of Primary Government	
Net Assets, as previously reported	\$ 11,967,761	\$ 2,733,773	
Change in accounting principle	45,812		
Change in application of an accounting principle		(22,095)	
Net Assets, as restated	\$ 12,013,573	\$ 2,711,678	

**1. Change in Accounting Principle**

The State implemented GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. The provision of the Technical Bulletin applicable to the State is the recognition of an accrual period for estimated tobacco settlement payments for the period January 1 through June 30, pursuant to the tobacco companies' Master Settlement Agreement. Accordingly, a receivable and deferred revenues have been accrued in the General Fund and revenues recognized at the government-wide statements for the governmental activities. In addition, the governmental activities Net Assets beginning balance was restated for the cumulative effect of applying this Technical Bulletin. This resulted in an increase of net assets of \$45.812 million. Refer to Note 12 for further discussion on the tobacco settlement.

**2. Change in Application of an Accounting Principle**

In fiscal year 2004, Arizona State University increased its capitalization threshold for equipment and works of art and historical treasures to \$5,000 to enhance asset management and capital asset data integrity. The decrease in net assets was \$22.095 million.

**3. Prior Year Correction of Errors**

Permanent Funds' investments in the Local Government Investment Pool were incorrectly excluded from fiscal year end 2003 Net Assets. The increase in net assets was \$47.752 million.

**NOTE 9. FUND DEFICIT**

The major contributor to the Industrial Commission Special Fund deficit of \$162.610 million is the \$145.198 million increase in the actuarial liability for several insolvent insurance carriers and self-insured plans. The Industrial Commission Fund is responsible for paying all current and future Arizona workers' compensation claims of these companies. Some of the claims expense will be recovered over a period of years as the Industrial Commission Special Fund receives liquidation distributions from the bankrupt companies. The deficit will also be recovered from the Industrial Commission reinstating assessments of gross

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

premium revenues received by the State Compensation Fund and privately owned insurance companies that provide workers' compensation insurance. The 2005 calendar year assessments percentage for the State Compensation Fund and privately owned insurance companies that provide workers' compensation insurance will be two and one-half percent, the largest amount currently authorized in Arizona law. The Industrial Commission has imposed no premium revenue assessments since calendar year 1992.

The Internal Service Funds deficit results from the following:

- Risk Management Fund (the "RMF") net losses in prior years. The RMF deficit of \$211.370 million is primarily due to the RMF receiving annual funding for "expected paid claims" (self-insured and excess insurance expenditures, legal and other claim related expenditures, and administrative expenditures). "Accrued insurance losses" of the RMF are not considered when determining funding for each fiscal year.
- The Sick Leave Liability Fund pays retirees their accumulated sick leave upon retirement from State service when they meet certain criteria. When a retiree submits an application to receive their sick leave benefits, the entire liability is recorded in the fund. The retirees receiving benefits are paid in three equal annual installments, however, State agencies pay for only one year based on a .4% charge on gross payroll. The \$5.228 million fund deficit is primarily due to the above funding mechanism.
- The Employee Benefits Fund collects medical and dental health insurance premiums from State employees and State agencies and remits those amounts to health and dental insurance carriers. At the beginning of each year, the estimated amount of premiums due is transferred from the General Fund to the Employee Benefits Fund to cover premium payments for the year. The amount transferred during fiscal year 2004 was not sufficient to cover billed health and dental insurance premiums. Additionally, at fiscal year end, amounts owed to insurance carriers are accrued as a liability, however, revenue related to this liability is not earned until the next fiscal year. The above two factors are the major contributors to the Employee Benefits Fund fund deficit of \$4.591 million at the end of fiscal year 2004.

**NOTE 10. JOINT VENTURE**

The University of Arizona (the University) 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 University and the Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate and maintain a binocular telescope currently being constructed in Arizona. The current members of the LBT are the University, Arcetri Research Corporation, Ohio State University and the LBT Beteiligungsgesellschaft.

The University has committed resources equivalent to 25% of the project's construction costs and the LBT's annual operating costs. As of June 30, 2004, the University has made cash contributions of \$14.0 million toward the project's construction costs. The University's financial interest represents its future viewing/observation rights. Upon completion of construction, viewing rights will be divided among the participants in proportion to their contributions. According to the audited financial statements of the LBT for the year ended December 31, 2003, assets, liabilities, revenues and expenses totaled \$92.0 million, \$3.0 million, \$8.0 million and \$2.0 million, respectively.

The LBT's separate audited financial statements can be obtained from LBT Project Office, Steward Observatory, University of Arizona, Tucson, AZ 85721-0065.

**NOTE 11. COMMITMENTS, CONTINGENCIES AND COMPLIANCE**

**A. RISK MANAGEMENT INSURANCE LOSSES**

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

The Industrial Commission Special Fund provides payment of workers' compensation losses which are not covered by the State Compensation Fund, the Department of Administration – Risk Management Section, private insurance carriers, or self-insured employers. The workers' compensation claims paid by the Industrial Commission encompass losses against uninsured or underinsured employers, insolvent insurance carriers' payments for vocational rehabilitation, medical conditions incurred prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments and compensation for loss of earnings associated with the disability. The Industrial Commission is totally self-insured.

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis, independent actuarial firms are engaged to estimate the State's total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, salvage, subrogation, loss development factors and an estimate for incurred but not reported claims.

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

The majority of the liability increase from July 1, 2003 through June 30, 2004 was the result of \$107.600 million Arizona workers' compensation claims from the defunct California domiciled Fremont Companies that were assigned to the State Compensation Fund (SCF) under § 23-966(A). Effective for 2005, the Industrial Commission approved an additional one-half percent Special Fund assessment under § 23-966(D), based on insolvent carrier losses, bringing the total to two percent before including the pending § 23-1065(F) one-half percent assessment based on the total apportionment liability. With the inclusion of the § 23-1065(F) assessment, the total of all three assessments for the Special Fund in 2005 would be two and one-half percent. Over the next three fiscal years of 2005, 2006, and 2007, a projected \$57.000 million will be received by the Special Fund from liquidated assets of insolvent carriers.

The Industrial Commission Special Fund discounts all benefit reserves at three and one-half percent, except for medical. Medical benefits are discounted at an assumed inflation rate equal to the investment rate of return earned by the Industrial Commission Special Fund. The State Compensation Fund, on behalf of the Industrial Commission, has filed pending proof of claim requests with ancillary receivers, liquidators holding deposits and surety bonds of several insolvent companies. Since the actual amount that will ultimately be received cannot be determined, the Industrial Commission will continue to recognize receipt of insolvent carrier deposits (no insurance settlement income) as revenue at the time received rather than recording a receivable.

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

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

The following table presents the changes in claims liabilities balances (short- and long-term combined) during fiscal years ended June 30, 2003 and June 30, 2004 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2003	\$ 234,331	\$ 55,005	\$ 56,256	\$ 233,080
2004	233,080	68,430	58,382	243,128
Industrial Commission Fund:				
2003	187,665	69,355	17,282	239,738
2004	239,738	163,108	17,910	384,936

**B. LITIGATION**

In *Ladewig vs. Arizona Department of Revenue*, Ladewig is a class action tax refund case. The class members are seeking refunds for Arizona income tax paid on dividends received from corporations doing less than 50% of their business in Arizona during the years 1986 through 1989. The trial court held that such taxes violated the Commerce clause of the U.S. Constitution and certified the class. The class certification was upheld by the Arizona Supreme Court in 2001. The Tax Court approved a settlement in December 2002, however, three class members objected to the settlement and appealed to the Arizona Court of Appeals. The Court denied one appeal and dismissed the other two. A Petition for Review is pending at the Arizona Supreme Court. Accordingly, the State has recorded a long-term liability in its financial statements in the amount of \$291.746 million.

In *Kerr vs. Killian*, federal employees claimed an income tax refund on taxes paid on federal employee contributions. The Board of Tax Appeals granted these claims for the years before 1991, but has denied the claim for later years. The State did not appeal. The plaintiffs appealed for years after 1990. The Tax Court awarded attorneys fees from refunds the State is paying, and this ruling was upheld on appeal. The State has filed a petition for review. The attorneys' fees will be paid from funds otherwise due to taxpayers, so there will be little monetary effect on the State if the fees are awarded. The Tax Court has denied class certification, and ruled for the Plaintiffs on the merits regarding entitlement to refunds for years after 1990. The State appealed the substantive law issue and the Plaintiffs have appealed the denial of class certification, and the Court of Appeals ruled against the State. The Arizona Supreme Court held that Arizona's tax statutes after 1990 did not discriminate against federal employees based on the source of the income. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, the State could incur losses ranging from \$20 million to \$70 million.

In *Roosevelt Elementary School District No. 66 vs. State of Arizona*, the plaintiffs allege the State failed to fully fund the Building Renewal Fund established by the Students FIRST legislation. On October 13, 2000, the court held that the State did not violate the statutory provisions regarding funding of the Building Renewal Fund for fiscal year 1998-99. However, the court held that neither party was entitled to summary judgment regarding funding for fiscal year 1999-00, and that in order to prevail on that claim, the plaintiffs would have to demonstrate that they were injured by the alleged underfunding. On February 21, 2002, the court granted the plaintiffs' motion to file an amended complaint, which included similar allegations regarding funding for fiscal year 2001-02. The parties both moved for summary judgment once again regarding the remaining claims in the case (fiscal years 1999-2000 and 2001-02), and on May 7, 2002, the trial court granted the plaintiffs' motion for summary judgment as to both years. The State timely appealed the decision to the Arizona Court of Appeals. On August 14, 2003, the Court of Appeals reversed the decision of the trial court and remanded the matter back to the trial court. Plaintiffs filed a petition for review in the Arizona Supreme Court, which was denied. The matter has been remanded to the superior court, and discovery is now ongoing. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State could incur losses of approximately \$88 million.

In the *Somerton Elementary School District No. 66 vs. State of Arizona*, the plaintiffs' claim is identical to that alleged in the *Roosevelt Elementary School District* case discussed above, except that it involves the level of State funding for the Building Renewal Fund for the fiscal year 2002-03. Because the issues raised in this case are identical to those raised in the *Roosevelt Elementary School District* case, it was assigned to the same trial court judge. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State could incur losses of approximately \$90 million.

In *Schofield vs. State of Arizona*, a class action for on-call compensation was filed on behalf of all current and former State employees who were required to be on-call after normal working hours under State Personnel Rule R2-5-307. The parties

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

entered a settlement agreement providing for the administration of individual claims by arbitrators. All State agencies, except the Department of Corrections (DOC), have completed the claims process. Accordingly, the State has recorded a long-term liability in its financial statements in the amount of \$12.7 million to settle DOC claims.

In *Smith vs. Winkelman* the plaintiffs have filed an action in Maricopa County Superior Court seeking an accounting, declaratory relief and damages for breach of trust. Damages are for the value of land disposed of by the State Land Department between 1929 and 1967 for approximately 600 rights of way that were issued without appraisal or auction, and without the payment of any compensation, plus interest or rent or lost revenues. The State has filed a motion to dismiss based on statute of limitations and other grounds. The plaintiffs have moved to reassign the case to a judge handling complex civil litigation. The State has opposed the motion to reassign. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, it is possible that the State General Fund would have to pay the Land Endowments Fund between \$100 and \$500 million.

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, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the State. All losses for any unsettled litigation or contingencies involving workers' compensation, medical malpractice, construction and design, highway operations, employment practices, criminal justice, fidelity and surety, environmental property damage, general liability, environmental liability, building and contracts, auto liability, or auto physical damage are determined on an actuarial basis and included in the Accrued Insurance Losses of the Internal Service Funds and the Industrial Commission Special Fund.

**C. ACCUMULATED SICK LEAVE**

State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1500 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 percent for 500 hours to a maximum of 50 percent for 1500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the financial statements as an Internal Service Fund and accounts for the retiree accumulated sick leave. Unused accumulated sick leave of employees of the State, excluding Universities, at June 30, 2004, totaled \$309.559 million.

**D. UNCLAIMED PROPERTY**

The State of Arizona's Uniform Unclaimed Property Act requires deposit of certain unclaimed assets into a managed Agency Fund. ARS §44-313 requires a separate trust fund of not less than \$100 thousand to be retained for prompt payment of claims. The excess amount, above that which is required to be retained, is required to be deposited to the General Fund where it is included as other revenue. Under ARS §46-731, unclaimed utility deposits are deposited in the Utility Assistance Fund to help low income and elderly people make utility deposits and repairs. Monies in the Utility Assistance Fund shall not exceed \$1.0 million. Any amount in excess of \$1.0 million shall be deposited General Fund. Fifty-five and twenty percent of the remaining net cash collected, after refunds, is transferred to the Department of Commerce Housing Fund to be used for low-cost housing and the State Treasurer for distribution as provided for in ARS §5-113, respectively. The balance is to be deposited in the General Fund. For fiscal year 2004, \$1.308 million was deposited in the Utility Assistance Fund, \$20.708 million was deposited in the Housing Fund, \$7.530 million was deposited with the State Treasurer and \$8.044 million was deposited in the General Fund. A total of approximately \$298.240 million has been remitted since inception of the fund. In addition, the State is also holding securities valued at \$37.0 million, and mutual funds of \$6.283 million. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The Governmental Accounting Standards Board requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. This liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona. At June 30, 2004, this amount, reported as Due to Others in the General Fund, is \$76.580 million.

**E. CONSTRUCTION COMMITMENTS**

The Arizona Department of Transportation had outstanding commitments under construction contracts of approximately \$624.464 million at June 30, 2004.



STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**F. ARIZONA STATE LOTTERY**

Annuities are purchased for all prizes over \$400 thousand for which winners will receive the jackpot in annual installments for the Pick on-line game. These annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody, Duff & Phelps or Weiss. The Lottery remains contingently liable on all annuities. Aggregate future payments to prize winners on existing annuities totaled approximately \$233.103 million at June 30, 2004. Approximately \$162.730 million of the total aggregate future payments at June 30, 2004 relate to annuities purchased from five separate insurance companies, of which approximately \$69.601 million relates to a single insurance company.

In 1994, an insurance company from which the Lottery purchased annuities during the period 1983 through 1989 was placed under State supervision. At June 30, 2004, remaining aggregate minimum future payments on such purchased annuities approximated \$5.407 million. In 1997, an insurance company from which the Lottery purchased annuities in 1986 was placed under State supervision. At June 30, 2004, remaining aggregate minimum future payments on such purchased annuities approximated \$923 thousand. As of November 12, 2004, both insurance companies were current in their required annuity payments. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the operations or financial position of the Lottery.

**NOTE 12. 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.

During fiscal year 2004, the State implemented the applicable provisions of the Governmental Accounting Standards Board Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. Accordingly, tobacco settlement revenue of \$92.550 million and \$91.601 million is recognized in the fund statements and the government-wide statements in fiscal year 2004, respectively. Refer to Note 8 for further discussion on the Technical Bulletin.

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, 2004.

**NOTE 13. PUBLIC-PRIVATE PARTNERSHIP**

The State of Arizona has entered into a partnership agreement with Accenture. The purpose of this partnership is to fund the Department of Revenue's technology needs. This agreement stipulates that Accenture will be paid 85 percent of the new revenue generated from the system enhancements, even if this amount is insufficient to cover the total contract cost. Accordingly, Accenture has created a system that increases the State's efficiency in collecting tax revenues. As of June 30, 2004, the State has paid Accenture \$17.175 million and accrued \$39.550 million towards the \$120.138 million contract cost. Included in the \$120.138 million contract cost, are application support charges of \$24.729 million.

**NOTE 14. CONDUIT DEBT**

In October 2003, the Greater Arizona Development Authority (GADA) issued \$11.230 million Infrastructure Revenue Bonds, Series 2003A for public infrastructure projects in the communities of the Town of Queen Creek, the City of Williams, and the Drexel Heights Fire District in the amounts of \$5.530 million, \$3.590 million and \$2.110 million, respectively. In February 2004, GADA issued \$12.955 million Infrastructure Revenue Bonds, Series 2004A for public infrastructure projects in the communities of the Town of Pinetop-Lakeside and the Cities of Apache Junction and El Mirage in the amounts of \$1.435 million, \$6.665 million, and \$4.855 million, respectively. GADA's bond structure provides lower borrowing costs for Arizona's communities by diversifying the risk to investors and by sharing financing costs among several borrowers. The GADA Fund is

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

leveraged when GADA issues its bonds, which maximizes loan capacity for communities. An intercept mechanism for intercepting state-shared revenues for loans to political subdivisions enhances the security of the GADA bonds even further.

In certain previous years, the State appropriated a total of \$20.0 million to GADA for the express purpose of securing bonds issued by GADA. As of June 30, 2004, the remaining balance in the appropriations account was \$16.607 million. The Series 2003A and 2004A bonds were issued by GADA to make loans to the participants listed above and constitute special and limited obligations of GADA. The principal of and interest on the bonds are payable solely from the funds which are held in Trust by the Trustee (the Trust Estate). The Trust Estate includes debt service payments required to be made by the respective participants in the Series 2003A and 2004A bond issues. The principal of and interest premium, if any, on the Series 2003A and 2004A bonds shall not constitute or give rise to a pecuniary liability on the part of the directors and officers of GADA. The Series 2003A and 2004A bonds do not constitute a legal debt of the State and are not enforceable against the State. At June 30, 2004, the outstanding face value of the Series 2003A and 2004A bonds was \$11.230 million and \$12.955 million, respectively, and the total outstanding face value of all bonds issued by GADA was \$65.510 million.

**NOTE 15. SUBSEQUENT EVENTS**

In July 2004, Northern Arizona University issued approximately \$38.0 million of Certificates of Participation (COPs) for various capital projects and renovations on the main campus. Northern Arizona University will be issuing approximately \$39.7 million of system revenue and refunding bonds in December 2004. Northern Arizona University will use \$15.0 million of the bonds for various capital projects and renovations on the main campus. The remaining \$24.7 million will be used to refund the Series 1997 system revenue bonds. These bonds are secured by a first lien on certain gross revenues and are on parity with the Series 2002 System Revenue Bonds, the Series 2002 System Revenue Refunding Bonds, and the Series 2003 System Revenue Bonds.

On July 16, 2004, the Arizona School Facilities Board issued \$246.600 million of State School Trust Revenue Bonds, Series 2004A, with interest rates ranging from 3.25% to 6.00%, and maturity dates ranging from 2006 to 2019. Series 2004A Bonds maturing after July 1, 2015 are subject to redemption and payment prior to maturity at the option of the Board. The 2004A Bonds are being issued to (i) refund and redeem the Series 2003A State School Trust Revenue Bonds, (ii) pay the costs of correcting existing deficiencies in school facilities within the State of Arizona, (iii) pay costs of issuance of the 2004A Bonds. Net proceeds totaled \$24.080 million after receipt of an original issue premium of \$25.788 million, payment of \$247.417 million to advance refund the Series 2003A Bonds, and payment of \$891 thousand of bond issuance costs.

On August 1, 2004, the Arizona School Facilities Board issued \$190.040 million of Certificates of Participation, Series 2004B, with interest rates ranging from 3.5% to 6.0%, and maturity dates ranging from 2006 to 2020. Series 2004B Certificates maturing on or after September 1, 2015 are subject to redemption and payment prior to maturity at the option of the Board. The 2004B Certificates are being issued (i) to finance the costs of acquiring leasehold interests in certain school sites and constructing and equipping thereon certain school facilities which will be subleased to various school districts within the State of Arizona, (ii) pay capitalized interest on the 2004B Certificates, and (iii) pay the costs of executing and delivering the 2004B Certificates. Net proceeds totaled \$200.000 million after receipt of \$16.260 million of original issue premium, payment of \$5.111 million of capitalized interest, and payment of \$1.189 million of issuance costs.

On September 8, 2004, the Arizona Department of Transportation issued \$188.260 million in Subordinated Highway Revenue Bonds, Series 2004B to (i) finance a portion of the Arizona Department of Transportation's Five-Year Construction Program, (ii) pay interest on any bonds issued for highway purposes, and (iii) pay costs of issuing the Series 2004B Subordinated Bonds. The 2004B Bonds are due July 1, 2012, through July 1, 2024. Net proceeds totaled \$200.0 million (after receipt of \$12.863 million reoffering premium and payment of \$1.123 million in underwriting fees and costs of issuance).

On October 27, 2004, the University of Arizona issued System Revenue Bonds Series 2004B in the amount of \$50.265 million dated November 1, 2004, to purchase a student housing complex from Southern Arizona Capital Facilities Corporation (SACFFC), and to refund in advance of maturity a portion of the University's System Revenue Bonds Series 1998 and System Revenue Bonds Series 2000A. The System Revenue Bonds Series 2004B bear interest rates ranging from 3% to 5% and mature in 2034. The complex consists of 150 units with 325 beds located on campus within the University of Arizona's planning boundary. SACFFC is an Arizona non-profit corporation formed to finance capital facilities construction.

On December 1, 2004, the Arizona School Facilities Board issued \$47.585 million of Certificates of Participation, Series 2004C, with interest rates ranging from 3.0% to 5.0%, and maturity dates ranging from 2007 to 2020. Series 2004C Certificates payable as to principal on or after September 1, 2015 are subject to optional prepayment prior to the scheduled principal payment date at

STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

the option of the Board. The 2004C Certificates are being issued (i) to finance the costs of acquiring leasehold interests in certain school sites and constructing and equipping thereon certain school facilities which will be subleased to various school districts within the State of Arizona, (ii) pay capitalized interest on the 2004C Certificates, and (iii) pay the costs of executing and delivering the 2004C Certificates. Net proceeds totaled \$50.000 million after receipt of \$3.303 million of original issue premium, payment of \$523 thousand of capitalized interest, and payment of \$365 thousand of issuance costs.

**NOTE 16. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – COMPONENT UNITS**

The accounting policies of the State of Arizona's component units conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (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 Financial Accounting Standards Board (FASB) statements for not-for-profit organizations for financial reporting purposes. Each component unit has a June 30 year-end with the exception of the Law College Association, which has a May 31 year-end.

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

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

**1. 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 if the restrictions are satisfied in the same reporting period in which the contributions are received, except for the Foundations associated with ASU, which classify such contributions as unrestricted.
- *Permanently restricted net assets* include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the board-approved payout be made available for program operations in accordance with donor restrictions.

**2. Cash and Cash Equivalents**

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

**3. Investments**

Investments are recorded in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, entities are required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities at fair value. Equities, fixed income, and mutual funds are stated at fair market value based on quoted market prices. Investment securities, in general, are exposed to various risks, such as

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

interest rate credit and overall market volatility. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses in the Statement of Activities.

**4. Income Taxes**

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

**5. Annuities Payable and Other Trust Liabilities**

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

**6. Contributions**

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

**7. Net Assets Released from Restriction**

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

**8. Use of Estimates**

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**B. CASH AND INVESTMENTS**

**1. Component Units**

**A. Cash and Investment Policies**

The University Medical Center's short-term investments are reported at cost, which approximates fair value. Long-term investments are reported at fair value as determined by quoted market prices.

The investments of the Water Infrastructure Finance Authority in Guaranteed Investment Contracts are stated at cost, since they are non-participating contracts. The other investments are stated at fair value, which approximates cost.

**B. Investments Custodial Risk**

The following tables summarize the credit risk of the investments (expressed in thousands). Category A includes investments that are insured or registered, or for which securities are held by the component unit or the component unit's agent in the component unit's name. Category B includes uninsured and unregistered investments for which securities are held by the counterparty's agent or trust department in the component unit's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty, or by its agent or trust department but not in the component unit's name.

Water Infrastructure Finance Authority				
Type of Deposit or Investment	Category			Reported Amount
	A	B	C	
Other investments	\$ -	\$ 15,064	\$ -	\$ 15,064
Subtotal	\$ -	\$ 15,064	\$ -	15,064
Investments Not Subject to Custodial Risk:				
Guaranteed Investment Contracts				68,082
Investments with State Treasurer				217,265
Total Cash and Investments				<u>\$ 300,411</u>

University Medical Center				
Type of Deposit or Investment	Category			Reported Amount
	A	B	C	
Corporate stocks	\$ -	\$ 20,749	\$ -	\$ 20,749
Corporate debt	-	3,912	-	3,912
State and local government securities	-	11,320	-	11,320
Other investments	-	31,927	-	31,927
Subtotal	\$ -	\$ 67,908	\$ -	67,908
Investments Not Subject to Custodial Risk:				
Guaranteed Investment Contracts				23,964
Money Market Mutual Funds				1,313
Total Cash and Investments				<u>\$ 93,185</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**2. Universities-Affiliated Component Units**

**A. Investment Summary**

Investments of the Universities-affiliated component units are comprised of the following amounts at June 30, 2004. All investments are stated at fair value (expressed in thousands):

	ASU <u>Foundation</u>	U of A <u>Foundation</u>	NAU <u>Foundation</u>
Money market funds and cash equivalents	\$ 17,908	\$ -	\$ -
U.S. Government/agency obligations and mutual funds	-	63,878	9,538
Domestic/international equity securities and mutual funds	176,188	130,257	26,510
Fixed income	76,111	-	-
Corporate bonds	-	26,199	5,970
REIT fund, real estate and timber partnerships	-	7,198	44
Absolute return limited partnerships	-	27,183	-
Other investments	7,500	8,279	-
Total Investments	<u>\$ 277,707</u>	<u>\$ 262,994</u>	<u>\$ 42,062</u>

**B. Endowment Trust Agreement**

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

**C. Securities Lending Program**

The U of A Foundation participates in a securities lending program established by Wells Fargo Bank, the custodian of the majority of the U of A Foundation's investment assets (the "Program"). Under the Program, the custodian makes the U of A Foundation's securities available for loan to selected brokerage firms and other borrowing organizations. Each loan is required to be collateralized in an amount equal to at least 102 percent of the market value of the loaned security and accrued interest thereon. Each loaned security is marked to market daily, and the custodian is required to ensure that collateralization remains at an amount of at least 102 percent on a daily basis. At June 30, 2004, \$33.819, \$34.305 and \$2.159 million in U.S. government and agency obligations, equity securities and corporate bonds, respectively, were in use under the Program.

**C. PROGRAM LOANS**

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 semiannual 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 2004 are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Clean Water Fund	\$ 229,934	\$ 85,453	\$ (22,912)	\$ 292,475
Drinking Water Fund	108,621	15,486	(7,412)	116,695
Total	<u>\$ 338,555</u>	<u>\$ 100,939</u>	<u>\$ (30,324)</u>	<u>\$ 409,170</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 .3 to 4.0 percent annual administrative fee.

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

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**D. DIRECT FINANCING LEASE AGREEMENT - UNIVERSITIES-AFFILIATED COMPONENT UNITS**

For the ACFFC, there were, as of June 30, 2004, five projects that it owns. Four of the projects consist of three privatized, on-campus housing operations, and one on-campus privatized energy management arrangement, for which independent management companies are responsible for providing services to students served by ASU or for ASU itself. In conjunction with these privatized arrangements, the independent management companies, with the approval and assistance of ASU, have obtained tax-exempt financing in order to maximize the overall financial benefits to ASU and its students. The fifth project is a flexible display multi-use clean room facility, located at the Price-Elliott Research Park. This facility was acquired by ACFFC, due primarily to the seller not desiring to sell the facility directly to ASU. This facility is leased to ASU, with up to one-half of the facility being available for sub-lease by ASU to industry partners. The lease has been recorded by ASU as a capital lease.

For the ACFFC facilities, ASU is not legally responsible for repayment of the debt, and there is no pledge or guarantee by ASU for repayment of the debt. Upon final principal repayment by ACFFC of the outstanding debt for each project, and termination of the respective ground lease, title to the facilities effectively transfers to ASU.

Pursuant to a Sublease Agreement, Nanotechnology Research, LLC, a wholly-owned subsidiary of ACFFC, leases its interest in the Research Park to ASU, which will pay rent at times and in amounts sufficient to pay all principal and interest (after utilization of amounts held in the Capitalized Interest Accounts) on the Series 2004 Bonds, as well as all fees and expenses related to the Series 2004 Bonds. The Sublease Agreement is a net lease, and Nanotechnology is entitled to receive the rents and all other sums payable pursuant to the Sublease Agreement free from all taxes, charges, fees, and expenses, all of which will be paid by ASU.

The Sublease Agreement commenced on April 7, 2004, and continued until June 30, 2004, with successive automatic annual renewals for the period July 1 through June 30 of each year without action on the part of Nanotechnology or ASU, through the period ending March 31, 2034. The Sublease Agreement is subject to early termination by Nanotechnology or ASU upon payment in full of the Series 2004 Bonds.

Upon termination or expiration of the Sublease Agreement, Nanotechnology's interest in the premises, including all buildings and improvements on the leased premises, transfers to ASU without further consideration. Therefore, the lease is classified as a direct financing capital lease.

Lease payments are based on a variable interest rate currently determined on a weekly basis. The average interest rate approximates 1.22% at June 30, 2004. Lease payments commence once the Capitalized Interest Accounts are fully utilized, which at present interest rates is expected to be in 2007. ACFFC's net investment in this direct financing lease is \$35.000 million.

**E. PLEDGES RECEIVABLE - UNIVERSITIES-AFFILIATED COMPONENT UNITS**

Unconditional promises to give are included in the accompanying financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises to give are recorded at their net realizable value using various yields as determined by the University Foundations. The following summarizes unconditional promises as of June 30, 2004, except for the Law Association, which is as of May 31, 2004 (expressed in thousands):

	Net Pledges <u>Receivable</u>
ASU Foundation	\$ 50,616
U of A Foundation	\$ 30,932
Law Association	\$ 30,041

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**F. CAPITAL ASSETS**

Capital asset activity for the University Medical Center for the fiscal year ended June 30, 2004 was as follows (expressed in thousands):

	<b>University Medical Center</b>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments &amp; Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Land	\$ 5,822	\$ 176	\$ (175)	\$ 175	\$ 5,998
Construction in progress	4,303	10,568	-	(10,229)	4,642
Total capital assets, not being depreciated	<u>10,125</u>	<u>10,744</u>	<u>(175)</u>	<u>(10,054)</u>	<u>10,640</u>
Capital assets, being depreciated:					
Buildings	144,238	284	(6)	4,446	148,962
Improvements other than buildings	1,421	2	(372)	(175)	876
Equipment	142,647	11,513	(3,582)	5,696	156,274
Total capital assets, being depreciated	<u>288,306</u>	<u>11,799</u>	<u>(3,960)</u>	<u>9,967</u>	<u>306,112</u>
Less accumulated depreciation for:					
Buildings	(75,851)	(6,641)	-	(1,824)	(84,316)
Improvements other than buildings	(1,824)	-	37	1,474	(313)
Equipment	(116,290)	(9,127)	291	350	(124,776)
Total accumulated depreciation	<u>(193,965)</u>	<u>(15,768)</u>	<u>328</u>	<u>-</u>	<u>(209,405)</u>
Total capital assets, being depreciated, net	<u>94,341</u>	<u>(3,969)</u>	<u>(3,632)</u>	<u>9,967</u>	<u>96,707</u>
Total capital assets, net	<u>\$ 104,466</u>	<u>\$ 6,775</u>	<u>\$ (3,807)</u>	<u>\$ (87)</u>	<u>\$ 107,347</u>

Capital asset summary for the Universities-affiliated component units for the fiscal year ended June 30, 2004 was as follows (expressed in thousands):

	ASU		Campus		
	<u>Foundation</u>	<u>ACFFC</u>	<u>Research Corporation</u>	<u>SACFFC</u>	<u>NACFFC</u>
Buildings and improvements	\$ -	\$ 14,018	\$ 11,093	\$ 17,675	\$ 12,514
Furniture, fixtures, and equipment	309	20,576	599	164	864
Land leasehold improvements	-	-	-	-	-
Construction in progress	15,695	25,929	-	-	-
Other property and equipment	-	308	-	-	-
Total cost or donated value	<u>16,004</u>	<u>60,831</u>	<u>11,692</u>	<u>17,839</u>	<u>13,378</u>
Less: Accumulated depreciation	<u>(126)</u>	<u>(2,399)</u>	<u>(1,022)</u>	<u>(372)</u>	<u>(834)</u>
Property and Equipment, net	<u>\$ 15,878</u>	<u>\$ 58,432</u>	<u>\$ 10,670</u>	<u>\$ 17,467</u>	<u>\$ 12,544</u>



STATE OF ARIZONA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2004

**G. LONG-TERM OBLIGATIONS**

**1. Component Units**

**A. Arizona Power Authority**

On September 12, 2001 the Arizona Power Authority (APA) issued \$57.520 million of Special Obligation Crossover Refunding Bonds (Crossover Bonds). Proceeds from the sale of the bonds along with a fund contribution by the APA were held in an escrow trust account invested in government securities until October 1, 2003 (the "Crossover Date") when a crossover refunding took place. The crossover refunding resulted in \$57.520 million of Special Obligation Crossover Refunding Bonds being exchanged for 2001 Series Power Resource Revenue Refunding Bonds of the same principle amount, maturity date and interest rates as the crossover bonds. In addition, as part of the crossover and as required by regulation, the APA applied an additional \$600 thousand of funds held in their Debt Service Reserve Account to effect the crossover transaction and called the \$62.630 million of the 1993 Series Power Resource Revenue Refunding Bonds maturing on and after October 1, 2005.

The proceeds in the government securities escrow trust account, together with the income realized from investment of trust assets, served as collateral for the Crossover Bonds and paid the debt service on those bonds until the Crossover Date. The Crossover Bonds were payable solely from the amounts in the escrow trust account and were not payable from any other source. Because they were not payable from revenues derived by the APA or secured by any assets held by the APA, neither the Crossover Bonds nor the assets held in the escrow trust account were reflected on the APA's Statement of Net Assets at June 30, 2003. However, in conjunction with the issuance of the Crossover Bonds, the APA deposited \$2.695 million with a crossover bond trustee which is reflected as "Cash with Trustee" in the APA's Statement of Net Assets at June 30, 2003.

As a result of the crossover refunding transaction on October 1, 2003, the 2001 Series Bonds are reflected as obligations of the APA at June 30, 2004 and the called portion of the 1993 Series Bonds are no longer outstanding and cease to be entitled to any lien on the revenues pledged to payment of those bonds. Instead, the revenue stream originally pledged to secure the called portion of the 1993 Series bonds "crossed over" to pay debt service on the 2001 Series Bonds on October 1, 2003. The 2001 Series Bonds bear interest at a rate of 5% and 5.25% payable on April 1 and October 1 of each year, commencing April 1, 2004 and maturing in 2017. In addition, the APA recognized an economic gain (difference between the present value of the old and new debt service payments) of \$2.096 million. The crossover refunding also resulted in the recognition of a deferred amount of \$2.412 million that has been reflected as a decrease in bonds payable and which will be amortized using the effective interest method as a component of interest expense over the life of the refunded bonds. The APA amortized \$200 thousand for the year ended June 30, 2004 resulting in a net deferred amount of \$2.212 million in the Statement of Net Assets. The APA also recognized a premium of \$3.537 million on the crossover refunding which has been reflected as an increase in bonds payable and which will be amortized using the effective interest method. The APA amortized \$293 thousand for the year ended June 30, 2004. The cash flows required to service the new debt are \$4.572 million less than the cash flows required to service the old debt.

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

**B. University Medical Center**

In March 1992, the University Medical Center (UMC) issued \$28.405 million of Hospital Revenue Bonds (the Series 1992 Bonds) and in May 1993, the UMC issued \$54.750 million of Hospital Revenue Refunding Bonds (the Series 1993 Bonds). The proceeds of the Series 1992 Bonds and the Series 1993 Bonds were used to advance refund a portion of prior bonds. In March 2004, the UMC issued \$52.000 million of Hospital Revenue Bonds (the "Series 2004 Bonds"). The Series 2004 Bonds were issued at a net premium to yield an effective interest rate of 4.82% and were used in part to advance refund the Series 1992 Bonds.

The UMC is subject to certain financial covenants under the Master Trust Indenture (the Indenture), with which the UMC is in compliance as of and for the year ended June 30, 2004. In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

The UMC has established and maintains separate funds as a bond reserve fund on outstanding bonds payable. These funds totaled \$8.540 million at June 30, 2004 which are held by the trustee and are reflected as restricted investments held by trustee in the accompanying financial statements.

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

**C. Water Infrastructure Finance Authority**

The Water Infrastructure Finance Authority (WIFA) issued Financial Assistance Revenue Bonds in 1992, 1995, 1996, 1997 and 1998. The WIFA also issued Capitalization Revenue Bonds in 1992, 1995, 1996, and 1997. WIFA also issued Water Quality Refunding Bonds in 1999, 2001 and 2004. The bonds are callable and interest is payable semiannually. The bonds are special obligations of the WIFA payable solely from and secured by the WIFA's assets. The bonds are not obligations, general, specific or otherwise, of the State of Arizona or any other political subdivision thereof other than the WIFA.

Bond premiums are being amortized over the life of the bonds. The amortization for the year ended June 30, 2004, is \$292 thousand and is offset against interest expense.

On September 8, 1999, the WIFA issued \$64.000 million of Water Quality Refunding Bonds to advance refund all of the 1991A bonds, and part of the 1992A, 1995A, and 1996A bonds. Under the terms of the refunding issue, sufficient assets to pay all of the principal and interest on the refunded bonds have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with the interest earned thereon, will provide amounts sufficient for future debt service requirements of the refunded bonds. The amount outstanding on the refunded bonds as of June 30, 2004 is \$19.230 million. These bonds have been defeased through advanced refunding and, therefore, the corresponding liability has been removed from the accompanying financial statements.

The \$1.688 million deferred loss on retirement of bonds is being amortized over the lives of the defeased bonds on the straight-line basis. The amortization for the year ended June 30, 2004, is \$142 thousand and has been included in interest expense.

On April 7, 2004, WIFA issued \$97.100 million of Water Quality Refunding Bonds to do an advance refunding of part of the 1992, 1997A, 1998A and 2001 bonds. Under the terms of the refunding issue, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest on the issues refunded. The amount outstanding on those bonds as of June 30, 2004 is \$97.100 million. These bonds are fully defeased, and, therefore, the corresponding liability has been removed from the accompanying financial statements.

The net present value cash flow savings on issuing the refunding bonds at 3.213% bond yield was \$3.120 million.

The \$8.336 million deferred amount on retirement of bonds is being amortized over the lives of the defeased bonds on a straight-line basis. No amortization for the year ended June 30, 2004 was taken on the deferred amount.

During fiscal year 2004, WIFA issued \$195.980 million of Water Quality Revenue Bonds, Series 2004, due in annual principal installments ranging from \$5.500 million to \$15.080 million, plus semi-annual interest ranging from 2.0% to 5.0% through October 1, 2024.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**Summary of Revenue Bonds**

The following schedule summarizes revenue bonds outstanding at June 30, 2004 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Outstanding Balance at June 30, 2004
Component Units:				
Arizona Power Authority	2001-2004	2005-2017	5.0-5.25%	\$60,065
University Medical Center	1992-2004	2005-2033	4.82-6.11%	99,425
Water Infrastructure Finance Authority	1992-2004	2005-2025	2.0-6.10%	417,400

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2004 are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service			Fiscal Year	Annual Debt Service		
	Arizona Power Authority				University Medical Center		
	Principal	Interest	Total		Principal	Interest	Total
2005	\$ 2,545	\$ 3,023	\$ 5,568	2005	\$ 2,835	\$ 5,022	\$ 7,857
2006	2,560	2,894	5,454	2006	3,625	4,876	8,501
2007	2,825	2,760	5,585	2007	3,835	4,689	8,524
2008	3,120	2,611	5,731	2008	4,040	4,491	8,531
2009	3,450	2,447	5,897	2009	4,145	4,289	8,434
2010-2014	22,495	9,122	31,617	2010-2014	22,460	18,229	40,689
2015-2019	23,070	2,500	25,570	2015-2019	24,755	12,100	36,855
Total	\$ 60,065	\$ 25,357	\$ 85,422	2020-2024	15,230	6,357	21,587
				2025-2029	9,275	3,743	13,018
				2030-2034	9,225	1,181	10,406
				Total	\$ 99,425	\$ 64,977	\$ 164,402

Fiscal Year	Annual Debt Service		
	Water Infrastructure Finance Authority		
	Principal	Interest	Total
2005	\$ 11,725	\$ 18,874	\$ 30,599
2006	28,515	18,369	46,884
2007	25,110	17,450	42,560
2008	23,025	16,482	39,507
2009	23,670	15,444	39,114
2010-2014	117,635	60,399	178,034
2015-2019	103,045	32,612	135,657
2020-2024	79,175	9,292	88,467
2025-2029	5,500	114	5,614
Total	\$ 417,400	\$ 189,036	\$ 606,436

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

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

The following is a summary of changes in Long-Term Obligations for the component units (expressed in thousands):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004	Due Within One Year	Due Thereafter
<b>Arizona Power Authority:</b>						
Long-term Debt:						
Revenue Bonds	\$ 67,495	\$ 57,520	\$ (64,950)	\$ 60,065	\$ 2,545	\$ 57,520
Revenue Bond Premium (Discount)	(1,181)	3,537	888	3,244	-	3,244
Deferred Amounts, Net	-	(2,212)	-	(2,212)	-	(2,212)
Total Long-term Debt	<u>66,314</u>	<u>58,845</u>	<u>(64,062)</u>	<u>61,097</u>	<u>2,545</u>	<u>58,552</u>
Other Long-term Liabilities:						
Compensated Absences	-	59	-	59	59	-
Total Other Long-term Liabilities	<u>-</u>	<u>59</u>	<u>-</u>	<u>59</u>	<u>59</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 66,314</u>	<u>\$ 58,904</u>	<u>\$ (64,062)</u>	<u>\$ 61,156</u>	<u>\$ 2,604</u>	<u>\$ 58,552</u>
<b>University Medical Center:</b>						
Long-term Debt:						
Revenue Bonds	\$ 70,900	\$ 52,000	\$ (23,475)	\$ 99,425	\$ 2,835	\$ 96,590
Revenue Bond Premium	-	1,855	(102)	1,753	-	1,753
Revenue Bond Discount	(3,028)	(665)	1,255	(2,438)	-	(2,438)
Total Long-term Debt	<u>67,872</u>	<u>53,190</u>	<u>(22,322)</u>	<u>98,740</u>	<u>2,835</u>	<u>95,905</u>
Other Long-term Liabilities:						
Compensated Absences	7,834	2,499	(1,787)	8,546	4,421	4,125
Other	4,948	-	(4,089)	859	-	859
Total Other Long-term Liabilities	<u>12,782</u>	<u>2,499</u>	<u>(5,876)</u>	<u>9,405</u>	<u>4,421</u>	<u>4,984</u>
Total Long-term Obligations	<u>\$ 80,654</u>	<u>\$ 55,689</u>	<u>\$ (28,198)</u>	<u>\$ 108,145</u>	<u>\$ 7,256</u>	<u>\$ 100,889</u>
<b>Water Infrastructure Finance Authority:</b>						
Long-term Debt:						
Revenue Bonds	\$ 230,280	\$ 293,080	\$ (105,960)	\$ 417,400	\$ 11,725	\$ 405,675
Revenue Bond Premium	4,673	28,125	(2,911)	29,887	-	29,887
Deferred Amounts, Net	-	(9,190)	-	(9,190)	-	(9,190)
Total Long-term Debt	<u>234,953</u>	<u>312,015</u>	<u>(108,871)</u>	<u>438,097</u>	<u>11,725</u>	<u>426,372</u>
Other Long-term Liabilities:						
Compensated Absences	59	46	(52)	53	53	-
Total Other Long-term Liabilities	<u>59</u>	<u>46</u>	<u>(52)</u>	<u>53</u>	<u>53</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 235,012</u>	<u>\$ 312,061</u>	<u>\$ (108,923)</u>	<u>\$ 438,150</u>	<u>\$ 11,778</u>	<u>\$ 426,372</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**2. Universities-Affiliated Component Units**

Bonds payable as of June 30, 2004 are summarized as follows (expressed in thousands):

	<u>Final Maturity</u>	<u>Amount</u>
ASU Foundation:		
Series 2003 Lease Revenue Term Bonds	2023	\$ 20,400
Series 2003 Lease Revenue Term Bonds	2028	10,575
Series 2003 Lease Revenue Term Bonds	2034	16,625
ACFFC:		
Series 2004A Variable Rate Demand Lease Revenue Bonds	2034	20,175
Series 2004B Variable Rate Demand Lease Revenue Bonds	2034	14,825
Series 2003 Serial and Term Bonds	2035	13,395
Series 2002 Bonds	2018	31,990
Series 2002 Bonds	2034	15,000
Series 2000 Serial and Term Bonds	2032	10,905
Unamortized bond premium		1,336
SACFFC:		
Tax Exempt Series 2002 Bonds	2034	20,755
NACFFC:		
Tax-exempt Series 2001 Serial Bonds	2005	154
Tax-exempt Series 2001 Term Bonds	2034	15,572

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

Fiscal <u>Year</u>	ASU			
	<u>Foundation</u>	<u>ACFFC</u>	<u>SACFFC</u>	<u>NACFFC</u>
2005	\$ -	\$ 1,055	\$ 260	\$ 150
2006	-	1,420	310	100
2007	580	1,960	330	130
2008	595	2,175	345	160
2009	615	3,085	365	195
Thereafter	45,810	97,931	19,145	14,991
Total	<u>\$ 47,600</u>	<u>\$ 107,626</u>	<u>\$ 20,755</u>	<u>\$ 15,726</u>

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**H. ACCOUNTING CHANGES AND RESTATEMENTS**

**1. Prior Year Correction of Errors**

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

	Component Units
Net assets, as previously reported	\$ 333,397
Prior year correction of errors	(284)
Net assets, as restated	<u>\$ 333,113</u>

The Water Infrastructure Finance Authority had a borrower refinance their loan in a prior period. In that process, part of the balance of the old loan was not removed from program loan receivables. The decrease in net assets was \$790 thousand. Also, for a prior period, the Water Infrastructure Finance Authority recognized an administrative draw from grant funds as deferred revenue. It should have been recognized as revenue. The increase in net assets was \$506 thousand. For both adjustments, the net decrease in net assets was \$284 thousand.

**2. Change in Accounting Principle**

As a result of implementing GASB Statement No. 39 – *Determining Whether Certain Organizations Are Component Units*, an amendment to GASB Statement No. 14 during fiscal year 2004, no restatements of beginning net assets will be reported in the year of implementation.

**3. State Compensation Fund**

The State Compensation Fund (the Fund) was reported in the CAFR as a discretely presented component unit (shown as separate financial statements) presented on the statutory basis of accounting in prior years. Component unit determination was based on the criterion set forth in GASB Statement No. 14 - *The Financial Reporting Entity*, that the State had the ability to impose its will on the Fund. The Fund challenged State House Bill 2002 Section 21 that directed a transfer of monies from the Fund to the State’s General Fund with the argument it would violate Arizona Constitution. The court ordered granting the Fund’s Motion for Summary Judgment during fiscal year 2004, citing that the rights of the contributing employers are vested rights that the Arizona Constitution provides shall not be impaired by any law and this transfer would interfere with the contracted rights, responsibilities and expectations of the parties to the contract. As a result of this decision, the State is not considered to have imposition of will and the Fund is not presented as a component unit in fiscal year 2004. Instead, the Fund is defined and disclosed as a related organization (see Note 1).

**I. RELATED PARTY TRANSACTIONS**

**University Medical Center**

The University Medical Center (UMC) and the U of A both provide and receive services from each other under various contracts. Payments to the University by the UMC include resident and intern salaries, utilities, ground maintenance, mailroom operations and various administrative functions. Amounts paid to the University for these services were approximately \$16.313 million for the year ended June 30, 2004.

The UMC has entered into contractual agreements with the University to provide support for the academic mission of the University. Charges to the University for such services and facilities provided by the UMC were approximately \$9.80 million for the year ended June 30, 2004. These amounts are included in other operating revenue in the accompanying financial statements.

University Physicians, Inc. (UPI) is a not-for-profit corporation whose members are physicians employed by the University and who practice at the UMC. The UMC has agreements with UPI whereby the UPI provides physician and other services to the UMC. The UMC also has an agreement to provide healthcare services to members of a health plan owned by UPI.

Effective July 1, 2003, the UMC became the region’s sole Level I Trauma Center and entered into an arrangement with UPI to pay trauma physician call pay. Funding for the physician call pay was derived primarily from funds designated by the State of

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
JUNE 30, 2004

Arizona to cover trauma readiness costs. During 2004, amounts incurred for these services totaled \$3.118 million. As of June 30, 2004, accrued expenses include approximately \$418 thousand payable to UPI for these services. These amounts were funded primarily by amounts the UMC received from the State of Arizona during fiscal year 2004 and in August 2004.

**J. JOINT VENTURE**

**University Medical Center**

The University Medical Center entered into a joint venture with Med-Forte Research Foundation, a Utah Corporation and an affiliate of the University of Utah, to form CardioWest Technologies, Inc. (CardioWest) in 1991. CardioWest was established to continue research and production of artificial heart technology and similar products. During 2002, the University Medical Center sold certain assets of CardioWest in exchange for a note receivable in the original amount of \$1.0 million and 15,000 shares of common stock of a newly formed company, Syncardia Systems, Inc. There was no material gain or loss on the sale of the assets.

**K. SUBSEQUENT EVENTS**

Subsequent to June 30, 2004, \$22.4 million of Variable Rate Revenue Bonds, Tax Exempt Series A 2004, and \$12.1 million Variable Rate Revenue Bonds, Taxable Series B, were sold by the Industrial Development Authority of the City of Tempe, Arizona. The net proceeds of these bonds, upon closing, were lent to ASUF Brickyard, LLC, a wholly-owned subsidiary of the Arizona State University Foundation, to acquire, improve, and equip a retail and office building located at Mill Avenue and Seventh Street in Tempe, Arizona.

Also, subsequent to June 30, 2004, the ASUF Scottsdale, LLC, a wholly-owned subsidiary of the Arizona State University Foundation, signed a 99-year lease with the City of Scottsdale to develop the ASU/Scottsdale Center for New Technology and Innovation. Development plans include approximately 1.2 million square feet of space, with approximately 90% devoted to research and related office space, and 10% devoted to retail businesses.

In September 2004, the University of Arizona sought approval from the Arizona Board of Regents to issue \$21.9 million of bonds to purchase the La Aldea project from Southern Arizona Capital Facilities Finance Corporation and assume management responsibilities. As a result of significant operating losses on the La Aldea project, the related bonds are in technical default and the management agreement is subject to termination. Southern Arizona Capital Facilities Finance Corporation would use the net proceeds to redeem the bonds and pay outstanding construction costs.

At a meeting held on September 28, 2004, the board of Northern Arizona Capital Facilities Finance Corporation (the "NACFFC") unanimously authorized the remarketing of the existing bonds to a fixed rate product as soon as possible, and authorized the sale of new bonds not to exceed \$30.0 million for the purpose of constructing new student housing. The board also authorized the manager of the student housing facility to develop and negotiate capital lease agreements between the NACFFC and Northern Arizona University for both the current housing project, and the proposed new project for subsequent presentation to the board.

STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

**L. CONDENSED FINANCIAL STATEMENT INFORMATION**

The following represents summary financial information for the State of Arizona's component units for the year ended June 30, 2004. Component units affiliated with the Universities are presented separately from other component units of the State (expressed in thousands):

**1. Component Units**

**Condensed Statement of Net Assets  
 Component Units  
 (Expressed in Thousands)**

	Water Infrastructure Finance <u>Authority</u>	University Medical Center	Arizona Power Authority	<u>Total</u>
<b>ASSETS</b>				
Cash and investments	\$ 300,411	\$ 93,185	\$ 15,106	\$ 408,702
Loans & notes receivable	409,170	-	-	409,170
Capital assets, net of accumulated depreciation	16	107,347	159	107,522
Other assets	6,896	62,001	52,237	121,134
Total Assets	<u>716,493</u>	<u>262,533</u>	<u>67,502</u>	<u>1,046,528</u>
<b>LIABILITIES</b>				
Long-term debt	438,097	98,740	61,097	597,934
Other liabilities	6,747	59,683	2,876	69,306
Total Liabilities	<u>444,844</u>	<u>158,423</u>	<u>63,973</u>	<u>667,240</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	16	34,455	159	34,630
Restricted	232,603	13,765	-	246,368
Unrestricted	39,030	55,890	3,370	98,290
Total Net Assets	<u>\$ 271,649</u>	<u>\$ 104,110</u>	<u>\$ 3,529</u>	<u>\$ 379,288</u>

**Condensed Statement of Activities  
 Component Units  
 (Expressed in Thousands)**

	Water Infrastructure Finance <u>Authority</u>	University Medical Center	Arizona Power Authority	<u>Total</u>
<b>EXPENSES</b>	\$ 16,128	\$ 326,592	\$ 25,389	\$ 368,109
<b>PROGRAM REVENUES</b>				
Charges for services	9,308	337,386	25,446	372,140
Operating grants and contributions	35,120	-	-	35,120
<b>NET REVENUE</b>	<u>28,300</u>	<u>10,794</u>	<u>57</u>	<u>39,151</u>
<b>GENERAL REVENUES</b>				
Unrestricted investment earnings	4,966	1,517	541	7,024
<b>CHANGE IN NET ASSETS</b>	33,266	12,311	598	46,175
<b>TOTAL NET ASSETS - BEGINNING, RESTATED</b>	238,383	91,799	2,931	333,113
<b>TOTAL NET ASSETS - ENDING</b>	<u>\$ 271,649</u>	<u>\$ 104,110</u>	<u>\$ 3,529</u>	<u>\$ 379,288</u>



STATE OF ARIZONA  
**NOTES TO THE FINANCIAL STATEMENTS**  
 JUNE 30, 2004

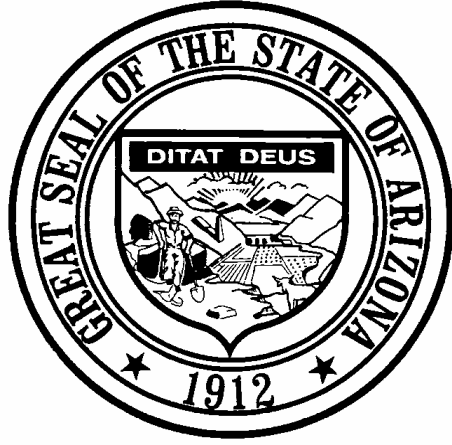
**2. Universities-Affiliated Component Units**

**Condensed Statement of Financial Position**  
**Universities-Affiliated Component Units**  
 (Expressed in Thousands)

	<u>ASU Foundation</u>	<u>University of Arizona Foundation</u>	<u>Other Component Units</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and investments	\$ 277,707	\$ 279,326	\$ 115,494	\$ 672,527
Property and equipment, net	15,878	1,332	123,997	141,207
Other assets	96,520	52,445	94,628	243,593
Total Assets	<u>390,105</u>	<u>333,103</u>	<u>334,119</u>	<u>1,057,327</u>
<b>LIABILITIES</b>				
Bonds payable	47,600	160	190,281	238,041
Other liabilities	59,494	20,379	50,780	130,653
Total Liabilities	<u>107,094</u>	<u>20,539</u>	<u>241,061</u>	<u>368,694</u>
<b>NET ASSETS</b>				
Permanently restricted	195,947	200,133	27,815	423,895
Temporarily restricted	80,364	104,558	46,003	230,925
Unrestricted	6,700	7,873	19,240	33,813
Total Net Assets	<u>\$ 283,011</u>	<u>\$ 312,564</u>	<u>\$ 93,058</u>	<u>\$ 688,633</u>

**Condensed Statement of Activities**  
**Universities-Affiliated Component Units**  
 (Expressed in Thousands)

	<u>ASU Foundation</u>	<u>University of Arizona Foundation</u>	<u>Other Component Units</u>	<u>Total</u>
<b>REVENUES</b>				
Contributions	\$ 36,526	\$ 42,679	\$ 14,901	\$ 94,106
Rental revenue	-	952	20,562	21,514
Other revenue	34,714	34,110	22,040	90,864
Total Revenues	<u>71,240</u>	<u>77,741</u>	<u>57,503</u>	<u>206,484</u>
<b>EXPENSES</b>				
Program services:				
Payments to Universities	20,888	22,086	6,031	49,005
Other program services	11,996	16,979	14,631	43,606
Personal services, operations, and administrative	3,250	3,965	15,994	23,209
Other expenses	4,910	3,444	11,993	20,347
Total Expenses	<u>41,044</u>	<u>46,474</u>	<u>48,649</u>	<u>136,167</u>
Increase in Net Assets	30,196	31,267	8,854	70,317
Net Assets at Beginning of Year	252,815	281,297	84,204	618,316
Net Assets at End of Year	<u>\$ 283,011</u>	<u>\$ 312,564</u>	<u>\$ 93,058</u>	<u>\$ 688,633</u>



REQUIRED  
SUPPLEMENTARY  
INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Dollars)

GENERAL FUND	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>GENERAL FUND</b>			
<b>General Accounting Office</b>			
Capital Outlay - Cochise	\$ 681,800	\$ 681,800	\$ 681,800
Capital Outlay - Coconino	319,300	319,300	319,300
Capital Outlay - Graham	616,700	616,700	616,700
Capital Outlay - Maricopa	8,309,800	8,309,800	8,309,800
Capital Outlay - Mohave	440,400	440,400	440,400
Capital Outlay - Navajo	466,500	466,500	466,500
Capital Outlay - Pima	2,654,800	2,654,800	2,654,800
Capital Outlay - Pinal	658,800	658,800	658,800
Capital Outlay - Yavapai	567,400	567,400	567,400
Capital Outlay - Yuma/La Paz	718,600	718,600	718,600
Equalization Aid - Cochise	2,208,300	2,208,300	2,208,300
Equalization Aid - Graham	7,273,300	7,273,300	7,273,300
Equalization Aid - Navajo	1,441,300	1,441,300	1,441,300
Equalization Aid - Yuma/La Paz	202,400	202,400	202,400
General Relief	0	202,613	202,613
Operating State Aid - Cochise	5,540,500	5,540,500	5,540,500
Operating State Aid - Coconino	2,905,500	2,905,500	2,905,500
Operating State Aid - Graham	5,252,400	5,252,400	5,252,400
Operating State Aid - Maricopa	46,613,700	46,613,700	46,613,700
Operating State Aid - Mohave	3,630,300	3,630,300	3,630,300
Operating State Aid - Navajo	4,210,300	4,210,300	4,210,300
Operating State Aid - Pima	18,125,700	18,125,700	18,125,700
Operating State Aid - Pinal	5,659,100	5,659,100	5,659,100
Operating State Aid - Yavapai	4,589,200	4,589,200	4,589,200
Operating State Aid - Yuma/La Paz	5,222,600	5,222,600	5,222,600
Woolsey Flood District	0	62,319	62,319
<b>Department of Administration</b>			
Administrative Adjustments	0	205,281	205,281
Administrative Adjustments	0	110,257	110,257
Administrative Adjustments	0	29,555	29,555
Arizona Financial Information System	927,500	927,500	656,402
Arizona State Hospital Construction FY00 - 01	142,584	142,584	36,284
Arizona State Hospital Construction FY01 - 02	654,902	654,902	(353)
Arizona State Hospital Construction FY02 - 03	17,658,335	17,658,335	66,883
Arizona State Hospital Construction FY99 - 00	720,731	720,731	(32,999)
ASDB Phoenix Transportation Building	694	694	0
Building Renewal FY00 - 01	201,778	216,913	167,468
Building Renewal FY01 - 02	172,567	160,213	158,059
Building Renewal FY02 - 03	1,837,060	1,662,073	1,188,312
Building Renewal FY03 - 04	3,500,000	3,074,650	772,467
Building Renewal FY97 - 98	0	2,103	0
Building Renewal FY98 - 99	42,193	42,193	35,344
Building Renewal FY98 - 99	15,243	15,243	9,336
COP Operating Lump Sum Appropriation	282,600	282,600	0
Ensco	5,421,100	5,421,100	5,420,100
Executive Tower Renovations	3,387	0	0
Land Acquisition and Planning FY86 - 87	12,979	0	0
Operating Lump Sum Appropriation	17,428,600	17,428,600	17,060,165
Operating Lump Sum Appropriation FY02 - 03	499,707	499,707	195,275
Operating Lump Sum Appropriation FY03 - 04	5,018,400	5,018,400	4,061,652
Performance Based Incentives	75,014	32,794	32,794
Pioneers' Home Plumbing Renovations	184,230	184,230	184,230

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
PLTO 1 Backfill Agency Relocations FY01 - 02	25,948	25,948	25,944
PLTO 1 Backfill Agency Relocations FY02 - 03	437,375	437,375	112,192
PLTO 1 Backfill Space Renovations	116,300	116,300	(9,779)
PLTO 1 Backfill Space Renovations FY01 - 02	847	847	0
PLTO 1 Backfill Space Renovations FY02 - 03	696,287	696,287	359,585
PLTO 1 Project Management	580,100	580,100	433,344
PLTO 1 Project Management FY01 - 02	1	1	0
PLTO 1 Project Management FY02 - 03	100,895	100,895	45,237
Relocation FY00 - 01	60,000	60,000	0
Relocation FY01 - 02	59,866	59,866	0
Relocation FY02 - 03	59,775	59,775	0
Relocation FY03 - 04	60,000	60,000	5,431
Relocation FY99 - 00	46,526	46,526	0
State Hospital Study and Design FY95 - 96	28,217	0	0
Utilities	6,100,000	6,100,000	5,508,800
HB1464 Personnel Reform	273,045	273,045	0
HRMS Lapsing End of FY04	1,504,700	1,504,700	1,504,700
Administrative Adjustments	0	129,354	129,354
Classification Pilot Program	122,454	122,454	0
Operating Lump Sum Appropriation	13,536,000	13,536,000	11,673,966
State Boards Lump Sum Appropriation	280,900	280,900	255,998
Administrative Adjustments	0	702	702
Lump Sum State Surplus Material	4,074,692	4,074,692	3,436,088
Administrative Adjustments	0	208,566	208,566
Federal Surplus Property Fund	343,108	343,108	48,377
Administrative Adjustments	0	0	0
<b>Radiation Regulatory Agency</b>			
Off-Site Nuclear Emergency Response Plan	0	451,600	451,600
Operating Lump Sum Appropriation	1,069,800	1,069,800	1,044,822
<b>Office of Equal Opportunity</b>			
Governor's Office of Equal Opportunity	214,800	214,800	212,429
<b>Attorney General</b>			
Administrative Adjustments	0	24,131	24,131
Administrative Adjustments	0	26,288	12,144
Crane Elementary School Case	0	500,000	430,393
Operating Lump Sum Appropriation	22,763,000	22,763,000	22,751,433
Operating Lump Sum Appropriation	35,212,784	17,880,300	16,997,472
Property Tax Supplemental	301	301	0
State Grand Jury	160,100	160,100	160,042
<b>Department of Agriculture</b>			
Administrative Adjustments	0	49,350	49,350
Agricultural Employment Relations Board	23,300	23,300	10,000
Animal Damage Control	65,000	65,000	65,000
Operating Lump Sum Appropriation	9,894,100	9,894,100	9,881,178
Red Imported Fire Ant	23,200	23,200	23,200
<b>Arizona State University</b>			
East Campus - Operating Lump Sum Appropriation	12,460,000	12,460,000	12,460,000
Main Campus - Operating Lump Sum Appropriation	263,943,900	263,943,900	263,943,900
West Campus - Operating Lump Sum Appropriation	36,190,400	36,190,400	36,190,400
<b>Auditor General</b>			
Operating Lump Sum Appropriation FY 00 - 01	387,692	387,692	0
Operating Lump Sum Appropriation FY 01 - 02	233,944	233,944	0
Operating Lump Sum Appropriation FY 02 - 03	297,825	297,825	4,015

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation FY 03 - 04	11,170,600	11,170,600	10,681,216
Operating Lump Sum Appropriation FY 99 - 00	281,001	281,001	51,002
<b>Banking Department</b>			
Administrative Adjustments	0	1,117	1,117
Operating Lump Sum Appropriation	2,736,000	2,736,000	2,721,459
<b>Board of Fingerprinting</b>			
Administrative Adjustments	0	2,089	2,089
<b>Board of Nursing</b>			
Fingerprinting Nursing Assistants	90,198	90,198	0
Operating Lump Sum Appropriation	134,900	134,900	134,900
<b>Board of Regents</b>			
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Operating Lump Sum Appropriation	2,090,200	2,090,200	1,227,371
Student Financial Aid Trust Fund	2,251,200	2,251,200	2,251,200
Western Interstate Commission Office	103,000	113,000	109,500
WICHE Student Subsidies	2,908,100	2,898,100	2,873,134
<b>Corporation Commission</b>			
Administrative Adjustments	0	6,318	6,318
Operating Lump Sum Appropriation	4,807,900	4,807,900	4,766,859
Operating Lump Sum Appropriation	38,800	38,800	37,086
Railroad Warning Systems FY00 - 01	192,000	102,666	666
Railroad Warning Systems FY99 - 00	100,371	100,371	11,785
<b>Community College Board</b>			
Administrative Adjustments	0	190	190
<b>Court of Appeals Division I</b>			
Division I - Operating Lump Sum Appropriation	7,108,330	7,108,330	7,108,320
Division I - Administrative Adjustments	0	2,243	2,243
<b>Charter Schools Board</b>			
Administrative Adjustments	0	585	585
Operating Lump Sum Appropriation	685,000	685,000	594,262
<b>Court of Appeals Division II</b>			
Division II - Operating Lump Sum Appropriation	3,102,170	3,102,170	3,101,409
<b>Department of Corrections</b>			
Administrative Adjustments	0	2,954,312	2,954,312
ASPC - Lewis Repair Shower FY00 - 01	0	20,000	0
ASPC-D -Mohave Control Room FY97 - 98	2,103	0	0
Operating Lump Sum Appropriation	607,112,400	607,112,400	604,686,466
Operating Lump Sum Appropriation	2,122,200	2,122,200	1,274,964
<b>Department of Economic Security</b>			
ADM Operating Lump Sum Appropriation	4,041,000	4,041,000	3,828,715
ADM Operating Lump Sum Appropriation	1,047,500	1,047,500	746,809
ADM Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	0
ADM Attorney General Legal Services	307,200	507,200	507,200
ADM Attorney General Legal Services	141,300	141,300	121,835
ADM Attorney General Legal Services	15,200	15,200	0
ADM Finger Imaging	488,200	488,200	303,201
ADM Finger Imaging	289,900	104,900	61,121
ADM High Performance Bonus	33,335	33,335	0
ADM Lease Purchase Equipment	1,602,700	1,602,700	1,602,700
ADM Operating Lump Sum Appropriation	25,574,900	25,908,700	23,462,800
ADM Public Assistance Collections	177,800	177,800	170,658
ADM Teen Pregnancy Prevention	16,997	0	0
ADM Workforce Investment Act Operating Lump Sum	0	500,000	0
Administrative Adjustments	0	4,647,766	4,647,766

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, 2004

(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Administrative Adjustments	0	22,728,025	21,233,087
Administrative Adjustments	0	290,896	290,896
Administrative Adjustments	0	9,180,355	9,180,355
CCA Sliding Fee Scales TANF	2,096,758	2,096,758	(579,360)
Coolidge Environmental Impact Study	4,948	4,948	0
DACS Short-Term Crisis Services TANF FY00 - 01	47,817	47,817	0
DACS Short-Term Crisis Services TANF FY99 - 00	2	2	0
DACS Adult Services	11,262,900	11,262,900	10,277,890
DACS Community and Emergency Services	5,496,000	5,424,900	5,001,827
DACS Coordinated Homeless Program	1,155,400	1,155,400	1,127,325
DACS Coordinated Homeless Program	1,583,200	1,649,500	1,464,213
DACS Coordinated Hunger Program	1,286,600	1,286,600	1,213,517
DACS Coordinated Hunger Program	500,000	500,000	452,691
DACS Domestic Violence Prevention	2,507,900	2,507,900	2,404,154
DACS Domestic Violence Prevention	5,115,900	5,120,700	4,448,954
DACS Domestic Violence Shelter Program	595	0	0
DACS Emergency Domestic Violence Shelter Services	0	0	0
DACS Hopi Senior Centers - Kykotsmovi	22,097	22,097	0
DACS Information and Referral	115,400	0	0
DACS Marriage and Communication Skills	532,535	532,535	365,679
DACS Marriage Handbook	22,877	22,877	22,068
DACS Marriage Skills Training	54,750	54,750	31,790
DACS Navajo Senior Center Services	50,000	50,000	25,000
DACS Navajo Senior Centers - Birdsprings	65,000	65,000	0
DACS Navajo Senior Centers - Chilchenbento	45,000	45,000	0
DACS Navajo Senior Centers - Chinle	10,000	10,000	0
DACS Navajo Senior Centers - Dilcon	30,000	30,000	0
DACS Navajo Senior Centers - Fort Defiance	65,000	65,000	0
DACS Navajo Senior Centers - St Michael's	1,961	1,961	0
DACS Navajo Senior Centers - White Cone	30,000	30,000	0
DACS Operating Lump Sum Appropriation	4,273,800	4,806,300	3,830,316
DACS TANF Operating Lump Sum Appropriation	213,400	213,400	131,714
DACS Tribal Senior Centers - Navajo	714,300	714,300	116,767
Data Center Upgrades	0	0	0
DBME TANF Cash Benefits	111,736,700	120,471,600	118,524,566
DBME Food Stamp Outreach and Education FY00 - 01	943	0	0
DBME General Assistance	4,260,800	4,256,300	4,156,232
DBME Operating Lump Sum Appropriation	21,922,600	21,922,600	21,869,272
DBME Operating Lump Sum Appropriation	9,024,500	9,024,500	8,495,679
DBME TANF Cash Benefits	52,803,400	52,803,400	52,759,717
DBME TANF FLSA Supplemental	1,008,900	808,900	446,581
DBME Tribal Pass-Through Funding	4,288,700	4,288,700	4,123,356
DBME Tuberculosis Control	32,200	36,700	34,151
DCSE Attorney General Legal Services	339,200	176,940	120,200
DCSE Attorney General Legal Services	6,869,700	7,075,500	4,950,514
DCSE Central Payment Processing	444,700	444,700	444,700
DCSE Central Payment Processing	3,275,700	2,675,700	1,615,495
DCSE County Participation	6,845,200	6,395,200	5,457,403
DCSE Genetic Testing	72,400	37,400	37,400
DCSE Genetic Testing	723,600	338,600	178,976
DCSE Operating Lump Sum Appropriation	4,305,300	4,302,560	4,277,060
DCSE Operating Lump Sum Appropriation	34,710,000	35,939,200	26,210,721
DCYF Adoption Services	15,071,100	17,760,700	17,745,643
DCYF Adoption Services	5,186,100	8,186,100	6,486,100

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
DCYF Attorney General Legal Services	4,121,500	4,121,500	4,121,500
DCYF Attorney General Legal Services	48,700	48,700	1,533
DCYF Children Services	17,370,900	47,798,700	47,668,004
DCYF Children Services	15,174,300	9,359,300	9,094,161
DCYF Comprehensive Medical and Dental Program	2,057,000	2,057,000	2,057,000
DCYF CPS Appeals	623,400	473,400	473,400
DCYF CPS Substance Abuse Treatment	224,500	224,500	224,500
DCYF Family Builders TANF	5,200,000	5,200,000	4,289,474
DCYF Healthy Families	5,034,200	5,034,200	4,115,671
DCYF Homeless Youth Intervention FY00 - 01	30,539	(26,161)	(26,161)
DCYF Homeless Youth Intervention FY03 - 04	400,000	400,000	274,950
DCYF Intensive Family Services	1,985,600	1,985,600	1,985,600
DCYF Operating Lump Sum Appropriation	27,159,000	35,449,700	35,449,700
DCYF Operating Lump Sum Appropriation	20,559,900	20,912,645	20,348,865
DCYF Permanent Guardianship Subsidy	124,000	2,144,500	2,130,129
DCYF Permanent Guardianship Subsidy FY03 - 04	859,300	879,300	831,554
DCYF Residential Drug Treatment	0	350,000	0
DCYF Substance Abuse Treatment FY02 - 03	2,000,000	5,000,000	3,485,755
DCYF TANF to SSBG	25,259,700	25,259,700	21,386,579
DDD Arizona Training Program at Coolidge	2,921,900	2,721,900	2,617,894
DDD Case Management	3,193,100	3,793,100	3,793,100
DDD Home and Community Based Services	27,848,800	30,386,900	27,245,346
DDD Institutional Services	294,900	194,900	133,586
DDD Operating Lump Sum Appropriation	3,925,000	4,210,000	4,210,000
DDD State Funded Long Term Care Services	18,032,900	18,032,900	15,821,324
DDD Training Program at Coolidge	2,359,800	2,359,800	0
DERS Character Education	126,098	126,098	0
DERS Parenting Training	10,243	0	0
DERS Post-Shelter Training	706	0	0
DERS Work Related Transportation	302,200	302,200	295,378
DERS Daycare Subsidy	31,032,900	31,032,900	31,032,900
DERS Independent Living Rehabilitation Services	784,200	784,200	673,190
DERS Job Search Stipends	30,000	30,000	30,000
DERS Jobs	2,000,000	2,000,000	1,000,000
DERS Jobs	17,316,600	17,316,600	11,001,095
DERS Jobs	1,793,500	1,793,500	1,345,125
DERS Operating Lump Sum Appropriation	2,035,900	2,035,900	1,464,675
DERS Operating Lump Sum Appropriation	2,698,000	2,698,000	2,698,000
DERS Operating Lump Sum Appropriation	4,893,200	4,893,200	4,752,140
DERS Operating Lump Sum Appropriation	8,328,700	8,328,700	7,032,013
DERS Out-of-School Program	4,000,000	500,000	0
DERS Summer Youth Employment and Training	1,000,000	1,000,000	1,000,000
DERS Summer Youth Program	0	0	(32,446)
DERS TANF Day Care Subsidy	86,603,300	86,203,300	69,446,422
DERS TANF Day Care Subsidy	620,300	620,300	620,300
DERS TANF Transitional Child Care	30,500,000	30,900,000	27,129,140
DERS Vocational Education Grants TANF	449	0	0
DERS Vocational Rehabilitation Services	3,285,100	3,285,100	3,285,100
DERS WIA Operating Lump Sum	1,934,100	4,655,900	0
DERS Workforce Investment Act Programs	44,070,600	51,848,800	42,791,653
DERS Young Fathers Mentoring FY98 - 99	98,638	11,931	11,931
DERS/JTPA Welfare To Work Block Grant	84,332	84,332	84,332
Lease-Purchase Equipment	645,000	645,000	620,784
LTC Arizona Training Program at Coolidge	3,659,000	3,328,100	3,328,100

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
LTC Arizona Training Program at Coolidge	11,252,900	13,662,900	0
LTC Case Management	8,324,300	7,483,500	7,483,500
LTC Case Management	25,600,800	22,100,800	0
LTC Home and Community Based Services	115,438,100	110,230,300	110,230,300
LTC Home and Community Based Services	355,019,300	370,390,200	0
LTC Home and Community Based Services	848,100	848,100	0
LTC Institutional Services	3,940,200	3,567,500	3,567,500
LTC Institutional Services	12,117,900	12,417,900	0
LTC Medical Services	21,607,900	19,603,000	19,603,000
LTC Medical Services	66,453,400	70,453,400	0
LTC Operating Lump Sum Appropriation	7,819,100	7,064,400	7,064,400
LTC Operating Lump Sum Appropriation	24,047,000	19,547,000	0
State Funded LTC Services	1,952,600	2,462,900	2,438,800
Statewide Building Renewal FY00 - 01	0	5,000	5,000
Statewide Building Renewal FY02 - 03	0	160,000	160,000
Statewide Building Renewal FY03 - 04	0	186,015	149,000
Statewide Building Renewal FY92 - 93	20	20	0
<b>Department of Juvenile Corrections</b>			
Administrative Adjustments	0	520,076	520,076
Administrative Adjustments	0	2,029	2,029
Adobe Mountain Kitchen Floor	81	81	81
Adobe Mountain Well Repair	0	13,025	13,025
Building Renewal - Well Pump	0	1,300	1,300
Building Renewal FY91 - 92	39	39	0
Building Renewal FY94 - 95	3,794	3,794	0
Operating Lump Sum Appropriation	64,408,700	64,408,700	63,943,103
Operating Lump Sum Appropriation	2,891,058	2,891,058	2,890,699
<b>Department of Transportation</b>			
Operating Lump Sum Appropriation	68,100	68,100	68,099
<b>Department of Education</b>			
Accountability Measures	50	50	0
Achievement Testing	3,396,600	5,802,800	3,396,600
Additional State Aid to Schools	273,268,500	273,268,500	269,669,749
Administrative Adjustments	0	2,088,730	2,088,730
Adult Education Assistance	4,438,200	4,438,200	4,438,200
AIMS Intervention and Dropout Prevention Program	550,000	550,000	536,956
Arizona Teacher Evaluation	193,700	193,700	182,334
Assistance to School Districts for Children of State Employees	99,500	99,500	82,100
Basic State Aid Entitlement	2,584,146,700	2,608,778,400	2,588,305,944
Certificates of Educational Convenience	269,900	269,900	0
Chemical Abuse	796,300	796,300	770,525
English Learner Classroom Bonus Fund FY02 - 03	2,799,058	2,799,058	2,799,058
English Learner Classroom Bonus Fund FY03 - 04	0	3,060,000	3,060,000
English Learner FY02 - 03	236,254	236,254	33,982
English Learner FY03 - 04	0	316,095	157,022
English Learner Instruction FY02 - 03	4,738,724	4,738,724	4,466,136
English Learner Instruction FY03 - 04	0	5,500,000	4,484,893
English Learner Materials and Supplies FY02 - 03	260,879	260,879	260,879
English Learner Materials and Supplies FY03 - 04	0	1,500,000	1,114,564
English Learner Pilot FY02 - 03	101	101	101
English Learner Pilot FY03 - 04	0	750,000	749,798
English Learner Teacher FY02 - 03	4,500,000	4,500,000	0
English Learner Teacher FY03 - 04	0	4,500,000	46,701
Extended School Year	500,000	500,000	460,624

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Family Literacy Program FY03 - 04	1,002,100	1,002,100	990,242
Family Literacy Program FY98 - 99	1,373	1,373	0
Gifted Support	1,301,400	1,301,400	1,284,567
Operating Lump Sum Appropriation	498,600	498,600	416,670
Operating Lump Sum Appropriation	6,550,700	6,550,700	6,507,814
Optional Performance Incentive Programs	120,000	120,000	0
Parental Choice for Reading Success	1,000,000	1,000,000	974,003
Residential Placement	10,000	10,000	10,000
School Accountability Fund	18,400	18,400	18,400
School Report Cards	439,100	439,100	408,483
School Safety Program FY00 - 01	0	0	(7,461)
School Safety Program FY01 - 02	237,354	237,354	237,354
School Safety Program FY02 - 03	101,123	101,123	50,325
School Safety Program FY03 - 04	6,700,700	6,700,700	5,044,123
School Safety Program FY98 - 99	0	0	0
School Safety Program FY99 - 00	0	0	0
Small Pass-Through Programs	581,600	581,600	556,400
Special Education Audit	290,500	290,500	260,460
Special Education Fund	29,617,600	29,617,600	29,617,600
State Block Grant for Early Childhood Development	19,408,600	19,408,600	19,334,025
State Block Grant for Vocational Education	11,154,100	11,154,100	11,154,100
Teacher Certification	1,110,700	1,110,700	1,110,120
Vocational Education Extended Year	600,000	600,000	600,000
<b>Department of Commerce</b>			
Administrative Adjustments	0	48,944	48,944
Administrative Adjustments	0	616	616
Agriculture Preservation District	32,514	32,514	0
APNE FY01 - 02	331,152	331,152	329,009
Apprenticeship Services Office	156,000	156,000	131,533
General Fund Transfer 1st Special Session Chapter 1	2,500,000	2,500,000	2,500,000
Motion Picture Development	291,100	291,100	266,967
NAFTA Agreement Projects	37,777	37,777	0
NAFTA Projects - Initial Phase	19,874	19,874	0
Operating Lump Sum Appropriation	3,130,500	3,130,500	2,786,699
Operating Lump Sum Appropriation	120,200	120,200	114,250
<b>Board of Tax Equalization</b>			
Administrative Adjustments	0	18	18
Operating Lump Sum Appropriation	544,600	544,600	544,591
<b>Department of Environmental Quality</b>			
Administrative Adjustments	0	479,365	479,365
Administrative Adjustments	0	88,520	88,520
Aquifer Protection Permit Program	740,800	740,800	739,627
Operating Lump Sum Appropriation	11,666,900	11,666,900	2,843,800
Operating Lump Sum Appropriation	9,681,700	9,681,700	9,673,778
Water Infrastructure Finance Authority	2,445,100	2,445,100	2,445,100
<b>Geological Survey</b>			
Administrative Adjustments	0	3,992	3,992
Operating Lump Sum Appropriation	779,600	779,600	778,831
<b>Government Information Technology Agency</b>			
Operating Lump Sum Appropriation	2,507,600	2,507,600	2,162,331
Administrative Adjustments	0	1,456	1,456
<b>Governor's Office</b>			
Administrative Adjustments	0	8,606	8,606
Arizona - Sonora Study	5,200	5,200	0

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Border Volunteer Corps FY94 - 95	34,705	34,705	0
Border Volunteer Corps FY95 - 96	65,374	65,374	0
Governor's Office of Strategic Planning and Budgeting	1,686,000	1,686,000	1,680,585
Governor's Telecommunication	504	504	0
Office of Sonora	7,783	7,783	0
Operating Lump Sum Appropriation FY00 - 01	1,059	1,059	1,058
Operating Lump Sum Appropriation FY01 - 02	503,194	503,194	340,802
Operating Lump Sum Appropriation FY02 - 03	291,242	291,242	62,660
Operating Lump Sum Appropriation FY03 - 04	5,580,700	5,580,700	5,464,724
Operating Lump Sum Appropriation FY99 - 00	99,497	99,497	98,483
<b>Arizona Health Care Cost Containment System</b>			
Administration	18,162,400	15,062,400	14,514,359
Administration	18,110,500	18,110,500	17,592,553
Administrative Adjustments	0	20,090,960	20,090,960
Administrative Adjustments	0	50,522,620	50,512,116
Board of Nursing	209,700	209,700	209,700
Breast & Cervical Cancer Treatment State Program	1,153,200	1,153,200	228,726
Breast & Cervical Cancer Treatment Fed Administration	52,730	52,730	0
Breast & Cervical Cancer Treatment Fed Program	745,860	745,860	0
Breast and Cervical Cancer Treatment Program FY01 - 02	73	73	0
Breast and Cervical Cancer Treatment Program FY03 - 04	1,493,700	1,016,700	578,730
Capitation	266,040,800	280,533,500	280,533,500
Capitation	1,018,273,600	1,059,773,600	1,059,531,459
CHIP - Administration	1,400,200	1,400,200	1,400,200
CHIP - Parents	9,200,200	7,050,200	6,994,052
CHIP - Services	15,227,700	16,077,700	16,077,700
County Hold Harmless	4,825,600	4,825,600	4,825,600
Critical Access Hospitals	506,600	506,430	506,430
Critical Access Hospitals	1,193,400	1,193,570	1,193,570
DES Eligibility	20,770,700	23,870,700	23,831,747
DES Eligibility	23,547,700	24,647,700	21,691,047
DES Title XIX Pass Through	125,100	133,400	61,857
DES Title XIX Pass Through	186,200	186,200	80,437
DHS Title XIX Pass Through	906,800	962,200	659,620
DHS Title XIX Pass Through	827,600	827,600	686,890
Dialysis Chemotherapy Treatment Expense	132,786	132,786	132,786
Disproportionate Share Payments	44,823,900	51,709,524	50,396,310
Disproportionate Share Payments	92,042,900	113,116,000	103,532,555
DOA Data Center Charges	1,590,400	1,724,700	1,646,867
DOA Data Center Charges	4,127,100	4,127,100	3,559,801
Fee for Service	66,485,400	60,553,450	60,553,450
Fee For Service	292,350,900	258,765,600	251,262,960
Freedom to Work Program Expense	865,200	689,200	684,220
Freedom To Work Program Expense	2,038,000	2,038,000	1,456,305
Graduate Medical Education	6,102,100	6,100,069	6,100,069
Graduate Medical Education	14,374,800	14,376,832	14,376,831
Health Care Group	4,000,000	2,989,426	2,689,426
Indian Advisory Council	100,100	99,900	86,992
Indian Advisory Council	100,200	100,200	81,436
Long Term Care Program Lump Sum Appropriation	772,346,900	772,346,900	740,636,105
Medicare Premiums	11,586,900	11,825,843	11,825,842
Medicare Premiums	27,296,500	34,796,500	33,570,434
Mental Health - Adults FY91 - 92	45,368	45,368	0
Office of Administrative Hearings	191,900	277,200	213,620

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	25,518,800	25,321,000	24,976,870
Operating Lump Sum Appropriation	52,847,800	52,847,800	52,847,800
Operating Lump Sum Appropriation	35,426,600	34,326,600	30,728,749
Proposition 204 Administration	5,324,600	5,324,600	5,324,600
Proposition 204 Services	55,067,800	55,067,800	53,484,449
Proposition 204 Services	45,047,000	45,047,000	45,047,000
Reinsurance	23,542,700	11,823,158	11,815,204
Reinsurance	55,459,600	33,457,398	28,765,918
Services	103,417,800	102,417,800	102,417,800
Services	673,574,000	680,074,000	671,403,646
<b>Office of Administrative Hearings</b>			
Operating Lump Sum Appropriation	13,900	13,900	13,900
Operating Lump Sum Appropriation	1,078,500	1,078,500	1,078,500
<b>Historical Society</b>			
Field Services and Grants	80,000	80,000	80,000
Operating Lump Sum Appropriation	1,886,400	1,886,400	1,886,400
Papago Park Museum	1,407,500	1,407,500	1,407,500
<b>House of Representatives</b>			
Operating Lump Sum Appropriation FY00 - 01	855,754	855,754	1,500
Operating Lump Sum Appropriation FY01 - 02	426,822	426,822	0
Operating Lump Sum Appropriation FY02 - 03	843,846	843,846	958
Operating Lump Sum Appropriation FY03 - 04	11,173,900	11,173,900	10,557,490
Operating Lump Sum Appropriation FY97- 98	33,238	33,238	33,238
Operating Lump Sum Appropriation FY98 - 99	120,282	120,282	117,820
Operating Lump Sum Appropriation FY99 - 00	360,375	360,375	0
<b>Department of Health Services</b>			
90/91 Environmental Assessment Phoenix	8,849	8,849	0
91/92 Building Renewal FY91 - 92	3,548	3,548	0
ADHS Indirect Cost Account	6,873,300	6,873,300	5,261,545
ADHS Indirect Costs AHCCCS - CRS	350,000	350,000	290,000
Administrative Adjustments	0	1,838,484	1,838,484
Administrative Costs State Match	0	436,800	436,800
Adult Cystic Fibrosis	105,200	105,200	105,200
Adult Sickle Cell Anemia	33,000	33,000	33,000
AHCCCS - Children's Rehabilitative Services	10,240,000	11,484,337	11,484,337
AIDS Reporting and Surveillance	1,125,000	1,125,000	1,111,125
Antipsychotic Treatment Drug	0	128,300	128,300
Arizona State Hospital Accreditation	3,140	3,140	0
Arnold v. Sarn	27,500,000	27,500,000	27,499,999
ASH - Condensate Receiver	4,700	4,700	0
ASH - Cooling Towers #1-2	1,599	1,599	1,599
ASH - Juniper/Wick Windows	29,950	0	0
Assurance and Licensure	6,488,844	6,488,844	6,153,249
Assurance and Licensure	410,800	410,800	324,545
Attorney General Legal Services	302,800	302,800	302,800
Building Renewal - Tucson FY00 - 01	6,109	6,109	0
Building Renewal - Tucson FY01 - 02	74,974	74,974	0
Building Renewal - Tucson FY02 - 03	78,900	78,900	0
Building Renewal - Tucson FY98 - 99	2,221	2,221	0
Building Renewal - Tucson FY99 - 00	37,168	37,168	0
Building Renewal FY96 - 97	30	30	0
Children's Behavioral Health Services	9,351,800	9,351,800	9,285,106
Children's Behavioral Health Services - Tobacco Settlement Account	5,728,728	5,728,728	4,895,183
Children's Behavioral State Match for Title XIX	44,673,400	45,747,200	45,747,200

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

(Continued)

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Children's Rehabilitative Services	3,587,000	3,587,000	3,587,000
Cholla - Sexual Predator	11,655	11,655	0
Community Health Centers	10,400,580	10,400,580	9,938,789
Community Placement Treatment	5,574,100	5,574,100	5,574,100
Community Placement Treatment	1,130,700	1,130,700	1,130,700
Competency Restoration Treatment	0	0	0
County Nutrition Services	330,300	330,300	183,638
County Prenatal Services Grant	1,148,500	1,148,500	793,786
County Public Health	200,000	200,000	200,000
Court Monitoring	197,500	177,500	177,500
Direct Grants	460,300	460,300	460,300
Hearing and Speech Professionals Regulation	0	130,000	63,989
Hepatitis C Surveillance	350,409	350,409	321,941
High Risk Perinatal Services	3,180,600	2,862,500	2,373,687
Kidney Program	50,500	50,500	50,500
Laboratory Services	2,959,748	2,959,748	2,802,670
Male Restoration to Competency Program	17,950	17,950	17,950
Medicaid Special Exemption Payments	175,600	195,063	195,063
Medicaid Special Exemption Payments	2,804,800	2,804,800	2,804,800
Mental Health - Non-Title XIX	2,447,300	2,447,300	2,445,685
Mental Health and Substance Abuse State Match	14,650,900	17,603,100	17,603,100
Operating Lump Sum Appropriation	12,935,046	12,935,046	12,420,624
Operating Lump Sum Appropriation	4,545,775	4,883,875	4,618,958
Operating Lump Sum Appropriation	3,423,618	3,423,618	3,050,678
Operating Lump Sum Appropriation	4,213,893	4,113,893	3,956,421
Operating Lump Sum Appropriation	34,660,496	34,760,496	34,363,495
Operating Lump Sum Appropriation	1,100,000	1,100,000	1,100,000
Operating Lump Sum Appropriation	7,169,300	7,169,300	7,151,521
Operating Lump Sum Appropriation	1,400,000	1,400,000	0
Proposition 204 State Match	13,450,500	8,855,000	8,855,000
Reimbursement to Counties	67,900	67,900	67,900
Renal and Non-Renal Disease Management	468,000	468,000	403,718
Seriously Emotionally Handicapped Children	500,000	500,000	0
Seriously Mentally Ill Non-Title XIX	59,916,700	59,916,700	59,863,216
Seriously Mentally Ill State Match for Title XIX	8,375,100	14,330,100	14,330,100
Sexually Transmitted Disease Control	26,300	26,300	24,935
Sexually Violent Persons	9,698,382	9,698,382	9,379,464
Sexually Violent Persons Capital Improvement	0	0	(23,750)
Statewide Immunization Information System	451,809	451,809	406,778
Substance Abuse - Non-Title XIX	12,135,400	12,135,400	12,112,054
TANF Prenatal Services FY99 - 00	46,709	46,709	(260)
Telemedicine	260,000	260,000	250,156
Tuberculosis Provider Care and Control	1,010,500	1,010,500	827,000
Vaccines	2,904,700	2,904,700	2,903,860
Vital Records	131,550	131,550	93,690
<b>Commission on the Arts</b>			
Community Service Projects	1,263,100	1,263,100	1,263,100
Operating Lump Sum Appropriation	538,000	538,000	538,000
<b>Indian Affairs Commission</b>			
Administrative Adjustments	0	165	165
Operating Lump Sum Appropriation	201,400	201,400	197,414
<b>Occupational Safety and Health Review Board</b>			
Employee Related Expenditures FY01 - 02	75	75	0
Operating Lump Sum Appropriation FY00 - 01	1,000	1,000	0

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, 2004

(Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation FY01 - 02	6,947	6,947	0
Operating Lump Sum Appropriation FY02 - 03	4,800	4,800	0
Operating Lump Sum Appropriation FY03 - 04	0	4,800	0
Operating Lump Sum Appropriation FY98 - 99	8,363	8,363	312
Operating Lump Sum Appropriation FY99 - 00	1,000	1,000	0
Personal Services FY91 - 92	53	53	0
<b>Insurance Department</b>			
Administrative Adjustments	0	1,821	1,821
Managed Care and Dental Plan Oversight	517,000	517,000	480,777
Operating Lump Sum Appropriation	5,705,000	5,705,000	5,588,424
<b>Arizona Criminal Justice Commission</b>			
Administrative Adjustments	0	110,146	110,146
Operating Lump Sum Appropriation	994,200	994,200	744,394
Rural State Aid to County Attorneys	157,700	157,700	157,700
Rural State Aid to Indigent Defense	150,100	150,100	150,100
<b>Joint Legislative Budget Committee</b>			
Operating Lump Sum Appropriation FY 02 - 03	1,232,147	1,232,147	1,232,147
Operating Lump Sum Appropriation FY 03 - 04	2,100,600	1,950,600	620,413
<b>Department of Library, Archives and Public Records</b>			
Grants-In-Aid FY01 - 02	97,657	97,657	96,314
Grants-In-Aid FY02 - 03	79,400	79,400	25,000
Grants-In-Aid FY03 - 04	651,400	651,400	562,543
Operating Lump Sum Appropriation FY02 - 03	3,003	3,003	3,003
Operating Lump Sum Appropriation FY03 - 04	5,817,400	5,817,400	5,647,972
Operating Lump Sum Appropriation FY00 - 01	189,093	189,093	53,442
Operating Lump Sum Appropriation FY01 - 02	89,146	89,146	0
Operating Lump Sum Appropriation FY03 - 04	426,100	426,100	426,100
Statewide Radio Reading Services for the Blind	97,000	97,000	97,000
<b>Legislative Council</b>			
Juvenile Study	19,520	19,520	0
Ombudsman Citizens Aid Office FY02 - 03	34,099	34,099	34,099
Ombudsman Citizens Aid Office FY03 - 04	363,400	363,400	328,462
Ombudsman FY93 - 94	43,000	43,000	0
Ombudsman FY94 - 95	95,169	95,169	0
Operating Lump Sum Appropriation FY03 - 04	3,690,600	3,690,600	3,410,983
Operating Lump Sum Appropriation FY99 - 00	890,320	890,320	3,900
Operating Lump Sum Appropriation FY00 - 01	243,027	243,027	62,698
Operating Lump Sum Appropriation FY02 - 03	134,639	134,639	134,639
School Maintenance and Operations	214,221	214,221	0
<b>Land Department</b>			
Administrative Adjustments	0	10,744	10,744
Environmental County Grants	125,000	125,000	125,000
Fire Suppression	0	3,000,000	3,000,000
Operating Lump Sum Appropriation	13,429,300	13,429,300	13,415,491
<b>Liquor Licensing Department</b>			
Administrative Adjustments	0	9,579	9,579
Operating Lump Sum Appropriation	2,449,000	2,449,000	2,448,942
<b>Law Enforcement Merit System Council</b>			
Operating Lump Sum Appropriation	56,800	56,800	56,424
<b>Department of Emergency and Military Affairs</b>			
Administrative Adjustments	0	61,684	61,684
Apache County River Reservoir Dam Emergency	0	400,000	5,184
Aspen Fire Emergency	0	1,140,575	321,125
Aspen Fire Emergency	63,149	63,149	63,149

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Civil Air Patrol	56,700	56,700	56,700
EUZ701 Search and Rescue	0	100,000	98,990
EUZHAZ - Hazard Material Contingency FY01 - 02	15,271	15,271	2,332
EZU701 Search and Rescue	10,333	10,333	10,332
Forest Health Emergency-Pine Bark Beetle	0	457,390	4,694
Forest Health Emergency-Pine Bark Beetle	1,977,828	1,977,828	893,597
Gila County Flash Flood Emergency	0	62,497	62,497
Hazard Materials Contingency	0	50,000	986
Kinishba Fire Emergency	0	33,359	33,359
La Paz/Maricopa Counties Storm Emergency	0	120,000	627
La Paz/Maricopa Counties Storm Emergency	173,113	173,113	171,316
La Paz/Maricopa Counties Storm Emergency	133,393	133,393	133,343
Mesa Armory Re-roofing	1,325	1,325	0
Mitigation Projects 2004 Emergency Funds	0	1,636,179	0
Navajo, Gila and Coconino Counties Rodeo Fire	397,314	397,314	70,884
Navajo, Gila and Coconino Counties Rodeo Fire	1,212	1,212	1,160
Nogales and 52nd Street Building Renewal	12,032	12,032	0
Nuclear Emergency Management Fund	0	317,568	317,568
Nuclear Emergency Management Fund - Maricopa	0	243,824	243,824
Off Site Nuclear Emergency 89-90	1,708	1,708	0
Operating Lump Sum Appropriation	2,660,000	2,660,000	2,647,922
Operating Lump Sum Appropriation - Administration	1,294,000	1,294,000	1,288,590
Operating Lump Sum Appropriation - DEMA	833,400	833,400	833,374
Prescott and Bellemont Armories	130,589	130,589	28,692
Project Challenge Construction FY00 - 01	6,526	6,526	6,526
Project Challenge Construction FY01 - 02	207,656	207,656	62,188
Project Challenge Program	1,550,700	1,550,700	1,544,957
Roosevelt Building Renewal	7,358	7,358	7,358
Safford and Sunnyslope Building Renewal	141	141	0
September Terrorism Incident Emergency	141,605	141,605	141,605
Service Contracts FY02 - 03	4,884	4,884	4,884
Service Contracts FY03 - 04	852,300	852,300	603,515
Yuma National Guard Center	0	371,000	371,000
<b>Mine Inspector</b>			
Administrative Adjustments	0	5,889	5,889
Operating Lump Sum Appropriation	1,088,000	1,088,000	1,085,131
<b>Department of Building and Fire Safety</b>			
Administrative Adjustments	0	19,023	19,023
Operating Lump Sum Appropriation	3,197,700	3,197,700	2,806,296
<b>Mines and Mineral Resources</b>			
Operating Lump Sum Appropriation	648,800	648,800	611,512
<b>Medical Student Loans Board</b>			
Medical Student Loans	47,200	47,200	47,190
<b>Northern Arizona University</b>			
Main Campus - Operating Lump Sum Appropriation	109,309,800	109,309,800	109,309,800
NAU - Yuma Campus	2,127,500	2,127,500	2,127,500
Temporary Assistance For Needy Families	216,695	90,597	90,597
<b>Navigable Streams Adjudication Commission</b>			
Operating Lump Sum Appropriation	157,300	157,300	130,831
<b>Personnel Board</b>			
Administrative Adjustments	0	45	45
Operating Lump Sum Appropriation	333,400	333,400	268,502

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>Commission for Postsecondary Education</b>			
Leveraging Educational Assistance Partnership	1,220,800	1,220,800	1,220,800
Private Postsecondary Education Student Financial Assistance	170,500	170,500	170,500
<b>Prescott Historical Society</b>			
Building Renewal - Sharlot Hall Re-roofing	8,000	9,500	9,481
Operating Lump Sum Appropriation	612,700	612,700	612,498
<b>Pioneer's Home</b>			
Operating Lump Sum Appropriation	3,643,600	3,643,600	3,643,053
<b>Board of Executive Clemency</b>			
Operating Lump Sum Appropriation	859,000	859,000	857,570
<b>Parks Board</b>			
Acquisition and Development	314,151	314,151	199,791
Administrative Adjustments	0	24,651	24,651
Growing Smarter Transfer to Land Conservation Fund	0	20,000,000	20,000,000
Kartchner Caverns	700,000	700,000	0
Kartchner Caverns State Park	1,541,700	1,541,700	1,525,286
Operating Lump Sum Appropriation	2,316,600	2,316,600	2,203,379
Operating Lump Sum Appropriation	8,576,200	8,576,200	8,241,761
Spur Cross Ranch Acquisition FY00 - 01	74,500	0	0
Spur Cross Ranch Acquisition FY01 - 02	500	0	0
<b>Department of Public Safety</b>			
Operating Lump Sum Appropriation	331,000	331,000	222,080
Administrative Adjustments	0	227	227
Board of Fingerprinting	72,600	72,600	72,600
Building Renewal - Project 91-2060	0	12,300	8,058
Building Renewal - Project 91-2102	0	17,500	17,500
Building Renewal - Project 91-3010	1,981	2,540	2,540
Building Renewal - Project 91-3012	0	14,823	14,823
Building Renewal - Project 91-4018	0	36,310	34,000
Building Renewal - Project 91-4019	0	23,500	20,846
Building Renewal - Project 91-4020	0	16,500	9,956
G.I.T.E.M.	4,271,700	4,271,700	4,256,245
Operating Lump Sum Appropriation	25,309,700	25,309,700	25,309,700
Operating Lump Sum Appropriation	8,206,800	8,206,800	8,206,800
<b>Racing Department</b>			
Administrative Adjustments	0	8,279	8,279
Operating Lump Sum Appropriation	2,446,200	2,446,200	2,291,645
<b>Independent Redistricting Commission</b>			
Operating Lump Sum Appropriation FY00 - 01	557,341	557,341	508,708
Operating Lump Sum Appropriation FY03 - 04	0	1,703,000	1,453,458
<b>Real Estate Department</b>			
Operating Lump Sum Appropriation	3,113,700	3,113,700	3,112,403
<b>Ranger's Pension</b>			
Operating Lump Sum Appropriation	12,300	12,300	12,300
<b>Retirement System</b>			
James J. Burke v. ASRS, Attorney Fees and Cost FY01- 02	3,480,819	488,398	488,398
<b>Department of Revenue</b>			
Administrative Adjustments	0	50,253	50,253
Operating Lump Sum Appropriation	53,955,700	60,507,700	59,858,262
Revenue Generating Program	6,552,000	0	0
<b>Schools for the Deaf and the Blind</b>			
Administrative Adjustments	0	948,859	948,859
Operating Lump Sum Appropriation - Administration	4,795,232	4,795,232	4,549,855

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation - Phoenix	1,736,824	1,736,824	1,462,666
Operating Lump Sum Appropriation - Tucson	7,338,944	7,338,944	6,935,097
<b>School Facilities Board</b>			
Administrative Adjustments	0	1,609	1,609
Deficiencies Correction Appropriation	15,000,000	15,000,000	0
New School Facilities Debt Service	21,260,000	21,260,000	19,803,522
Operating Lump Sum Appropriation	1,579,400	1,579,400	1,574,579
<b>Senate</b>			
Operating Lump Sum Appropriation FY02 - 03	150,698	150,698	150,698
Operating Lump Sum Appropriation FY03 - 04	6,187,100	6,187,100	6,093,193
Operating Lump Sum Appropriation FY97 - 98	398,983	398,983	398,983
Operating Lump Sum Appropriation FY98 - 99	525,743	525,743	525,743
Operating Lump Sum Appropriation FY99 - 00	810,835	810,835	99,615
<b>Supreme Court</b>			
4th Floor Chiller	8,124	8,124	5,596
Administrative Adjustments	0	753,497	753,497
Administrative Adjustments	0	14,419	14,419
Administrative Adjustments	0	132,326	(13,521)
Adult Intensive Probation	10,170,800	10,170,800	10,148,093
Adult Standard Probation Enhancement	11,110,200	11,110,200	11,078,210
Case Processing - Automation	4,601,400	4,601,400	1,939,455
Case Processing - Automation	9,888,600	7,488,600	6,338,724
Commission on Judicial Conduct	343,700	343,700	342,195
Community Punishment	891,500	891,500	888,783
County Reimbursements	246,000	246,000	143,856
Domestic Relations	708,500	708,500	706,970
FOSTER CARE REVIEW BOARD	1,349,800	1,767,600	1,761,089
HVAC Ductwork Replacement	20,245	0	0
HVAC Piping and Pump - Courts Building	0	150,000	149,671
HVAC Replace Primary Ductwork - Courts Building	389	0	0
HVAC Storage Tank	10,259	10,259	9,048
Interstate Compact	558,600	558,600	555,278
Judges Compensation	13,399,400	13,829,400	13,737,763
Judicial Nomination and Performance Review	281,300	281,300	279,110
Juvenile Family Counseling	660,400	660,400	657,463
Juvenile Intensive Probation	13,236,400	13,236,400	13,206,253
Juvenile Standard Probation	8,341,600	7,911,600	7,903,131
Juvenile Treatment Services	23,315,600	23,315,600	23,314,637
Model Court	514,300	0	0
Operating Lump Sum Appropriation	7,665,800	7,822,000	7,567,698
Operating Lump Sum Appropriation	623,900	623,900	350,399
Operating Lump Sum Appropriation	4,803,200	7,203,200	6,522,148
Progressively Increasing Consequences	9,268,100	9,268,100	9,268,100
Rural State Aid to the Courts	418,500	418,500	418,500
Special Water Master	20,000	20,000	19,995
State Aid	84,700	25,000	24,993
<b>Secretary of State</b>			
Administrative Adjustments	0	57,428	57,428
Arizona Blue Book and Election Statute Book	0	57,000	41,765
Elections	2,286,289	2,286,289	2,026,770
Help America Vote Act	800,000	800,000	800,000
Operating Lump Sum Appropriation	2,101,011	2,101,011	1,883,003

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, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>Office of Tourism</b>			
Administrative Adjustments	0	4,732	3,664
Operating Lump Sum - Tourism Fund	9,000,000	9,000,000	8,979,409
Transfer to Tourism Fund	9,003,700	9,003,700	9,000,000
<b>State Treasurer</b>			
Community College Reimbursement	0	2,587,648	2,587,648
Corporate Income Tax Transfer to WQARF	0	10,000,000	10,000,000
Justice of the Peace Salaries	2,775,500	2,775,500	2,316,464
Operating Lump Sum Appropriation	2,582,300	2,582,300	2,578,620
Property Tax Refund	0	0	0
<b>Tax Appeals Board</b>			
Operating Lump Sum Appropriation	273,300	273,300	238,182
<b>University of Arizona</b>			
Agriculture	38,176,800	38,176,800	38,176,800
Clinical Rural Rotation	446,400	458,714	458,714
Clinical Teaching Support	9,015,900	9,445,800	9,445,800
Liver Research Institute	484,300	486,763	486,763
Main Campus - Operating Lump Sum Appropriation	223,904,800	223,904,800	223,904,800
Operating Lump Sum Appropriation	41,837,400	41,382,420	41,382,420
Sierra Vista Campus	2,226,400	2,226,400	2,226,400
Telemedicine	1,157,800	1,168,103	1,168,103
<b>Uniform State Law Commission</b>			
Operating Lump Sum Appropriation	49,600	49,600	43,278
<b>Veterans' Services Department</b>			
Administrative Adjustments	0	737	737
Nursing Home Project FY91 - 92	3,605	3,605	0
Nursing Home Project FY91 - 92	18,934	18,934	0
Nursing Home Project FY91 - 92	13,284	13,284	0
Operating Lump Sum Appropriation	2,013,800	2,013,800	2,006,197
Southern Arizona Cemetery	182,700	182,700	109,271
Southern Arizona Veterans' Cemetery	129,000	129,000	128,997
Veterans' Organizations Contracts	29,200	29,200	29,200
<b>Water Resources Department</b>			
Administrative Adjustments	0	247,315	247,315
Arizona Water Banking	500,000	0	0
Operating Lump Sum Appropriation	12,903,600	13,403,600	12,962,820
Rural Water Studies	500,000	500,000	250,130
<b>Weights and Measures Department</b>			
Administrative Adjustments	0	5,189	5,189
Operating Lump Sum Appropriation	1,316,900	1,316,900	1,292,832
<b>Total General Fund Budgetary Expenditures before Adjustment</b>	<b>10,780,681,578</b>	<b>11,061,999,215</b>	<b>10,241,521,339</b>
<b>Less:</b>			
Economic Security Long-Term Care System Fund Appropriations that were duplicate expenditure authorizations	(495,339,400)	(509,420,300)	0
<b>Total General Fund Budgetary Expenditures after Adjustment</b>	<b>\$ 10,285,342,178</b>	<b>\$ 10,552,578,915</b>	<b>\$ 10,241,521,339</b>

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 TRANSPORTATION AND AVIATION PLANNING,  
 HIGHWAY MAINTENANCE AND SAFETY FUND  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>TRANSPORTATION AND AVIATION PLANNING, HIGHWAY MAINTENANCE AND SAFETY FUND</b>			
<b>Department of Transportation</b>			
2003-East Valley Maintenance Yard	\$ 1,183,953	\$ 1,183,953	\$ 157,192
Administration - Operating Lump Sum Appropriation	56,253,000	56,253,000	56,243,103
Administrative Adjustments	0	29,608	29,608
Administrative Adjustments	0	22,906	22,906
Administrative Adjustments	0	0	0
Airport Planning and Development FY02 - 03	292,087	292,087	292,087
Airport Planning and Development FY03 - 04	15,232,000	15,232,000	10,525,446
Alt Truck Route - Douglas Chino Road	0	250,000	0
Arizona-Mexico Border Points FY97 - 98	569	569	0
Asbestos & Lead Inspections FY01 - 02	605,367	605,367	203,598
Asbestos & Lead Inspections FY02 - 03	598,039	598,039	0
Building Renewal	1,560,500	1,560,500	646,257
Building Renewal FY00 - 01	27,463	27,463	25,000
Building Renewal FY01 - 02	81,278	81,278	68,678
Building Renewal FY00 - 01	20,520	20,520	0
Building Renewal FY02 - 03	1,376,433	1,376,433	741,540
Building Renewal FY03 - 04	32,000	32,000	0
Cottonwood Motor Vehicle Division Service Center FY00 - 01	1,190	1,190	0
Cottonwood Motor Vehicle Division Service Center FY99 -00	1,563	1,563	0
De-Icer Building FY02 - 03	195,928	195,928	181,106
De-Icer Buildings FY01 - 02	3,355	3,355	0
Douglas Maintenance Yard Admin Adjustment FY90 - 91	2,000	2,000	0
Douglas Motor Vehicle Division Service Center	3,313	3,313	0
Fee Accounting and Revenue Mgmt System	0	343,537	187,453
Fire System Upgrades	46,187	46,187	0
Glendale Motor Vehicle Division Service Center FY00 - 01	2,260	2,260	0
Highway - Operating Lump Sum Appropriation	46,116,700	46,116,700	46,018,069
Highway Construction	311,475,000	311,475,000	241,574,241
Highway Construction FY02 - 03	49,105,210	49,105,210	49,105,210
Highway Maintenance Lump Sum Appropriation	2,582,109	2,582,109	2,580,388
Highway Maintenance Lump Sum Appropriation	95,155,200	95,155,200	92,484,356
Highway Maintenance Lump Sum Appropriation	558,700	558,700	558,600
Highway to DPS Transfer - Double Load	30,151,400	30,151,400	30,151,400
Highways - Construction Administration	51,859,000	51,859,000	51,645,774
Holbrook Maintenance Yard Sewer System	67,898	67,898	0
HURF to DPS Transfer - Double Load	48,698,000	48,698,000	48,698,000
Hwy Infra - Douglas Weigh Station	0	178,000	0
Integrated Inventory System	0	276,897	177,652
Liquid De-Icer Storage Tanks	1,436	1,436	0
Methane Extraction Unit	65,436	65,436	0
Modular Vehicle Davison Nogales Port Facility	18,882	18,882	0
Motor Vehicle Division Central AZ Port New Trailers	816	816	0
Motor Vehicle Division Electronic Certificate of Title Sys FY01 - 02	4,852	4,852	0
Motor Vehicle Division Electronic Certificate of Title Sys FY02 - 03	13,488	13,488	0
Motor Vehicle Division Lump Sum Appropriation	426,617	0	0
Motor Vehicle Division Lump Sum Appropriation	80,146,400	80,146,400	80,013,167
Motor Vehicle Division Lump Sum Appropriation	1,987,000	1,987,000	906,925
Motor Vehicle Division Lump Sum Appropriation	1,119,400	1,119,400	913,020
Motor Vehicle Division Lump Sum Appropriation	1,100,600	1,100,600	1,052,122
Motor Vehicle Division Nogales Port Facility	925,853	925,853	905,506

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

(Continued)

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 TRANSPORTATION AND AVIATION PLANNING,  
 HIGHWAY MAINTENANCE AND SAFETY FUND  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Dollars)

	ORIGINAL BUDGET (Appropriations)	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Motor Vehicle Division Nogales Port Facility	24,270	24,270	18,790
Motor Vehicle Division One-Time Trailer Fees Implementation	43,724	43,724	0
Motor Vehicle Division Security Enhancement Issues FY01 - 02	987,689	987,689	812,773
Motor Vehicle Division Security Enhancement Issues FY02 - 03	2,682,456	2,682,456	513,951
Nogales Cyber Port Study	0	300,000	0
Nogales Port of Entry	2	2	0
North Phoenix Maintenance Yard	67,181	67,181	39,964
On-Line Verification Of Soc Sec Numbers	0	797	0
Operating Lump Sum Appropriation	1,896,100	1,896,100	1,823,832
Operating Lump Sum Appropriation	55,700	55,700	55,700
Payson Motor Vehicle Division Service Center FY00 -01	44,138	44,138	0
Payson Motor Vehicle Division Service Center FY01-02	856,000	856,000	0
Safety, Security, Traffic Mgmt & Control	0	18,000	0
San Luis Poe Connector Road	0	200,000	0
Sef to DPS Transfer - Double Load	1,192,800	1,192,800	1,022,138
Site Improve - Nogales Insp Station	0	54,000	0
Southern Border Ports Administrations Office Annex	50,000	50,000	7,400
Special Projects	30,868	30,868	0
Vehicle Registration Enforcement	383,300	383,300	211,827
Vehicle Registration Enforcement	383,300	383,300	383,300
West Phoenix Motor Vehicle Division Service Center	351,089	351,089	349,742
<b>Governor's Office of Highway Safety</b>			
Voluntary Motorcycle Education Awareness	0	0	0
<b>Department of Public Safety</b>			
Operating Lump Sum Appropriation	80,000	80,000	74,368
<b>Total Transportation and Aviation Planning, Highway Maintenance and Safety Fund Budgetary Expenditures</b>	<b>\$ 808,227,619</b>	<b>\$ 809,474,747</b>	<b>\$ 721,422,189</b>

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES**  
 JUNE 30, 2004

**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, 2003 that affect available appropriations during fiscal year 2004. The final budget represents any appropriation bills passed during fiscal year 2004 for fiscal year 2004 plus the original budget. Appropriation bills passed after the end of fiscal year 2004 for fiscal year 2004 would also be included in the final budget.

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

	<b>General Fund</b>	<b>Transportation &amp; Aviation Planning, Highway Maintenance &amp; Safety Fund</b>
<b>Uses/outflows of resources</b>		
Actual expenditure amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 10,241,521	\$ 721,422
Differences - budget to GAAP:		
Increase (decrease) in unpaid incurred expenditures from fiscal year end 2003 to fiscal year end 2004.	(17,412)	375,467
(Decrease) in unpaid payroll expenditures from fiscal year end 2003 to fiscal year end 2004. For budgetary reporting, final June 2004 payroll expenditures were charged to fiscal year 2005 budget.	(1,039)	-
Distributions to counties and cities of sales taxes are recognized as expenditures on the modified accrual basis, but have no effect on budgetary expenditures.	756,605	-
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.	365,065	-
Capital leases and installment purchase contracts initiated during the fiscal year, which are not reported in budgetary expenditures.	21,485	-
Programs which are not controlled by legislative appropriations but have disbursed cash or incurred obligations during fiscal year 2004.	3,759,547	1,418,097
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(788,382)	(527,990)
Total expenditures, as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	\$ 14,337,390	\$ 1,986,996

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, 2004

**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. The budget is prepared by line item and/or program elements for each agency.

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

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

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

The State budgets on both an annual and biennial basis. Laws 2001, Chapter 236 appropriated biennial budgets for all state agencies. In biennial budgets, an agency receives a separate appropriation for each of two fiscal years. For "small" regulatory agencies, comprised of five to ten people, whose budgets were merely amended for technical adjustments in Laws 2002, Chapter 327, the first year appropriations do not lapse until the end of the second year. Except where specifically noted by the appropriation bills, the appropriations for all other agencies lapse at the end of each fiscal year. For the "large" fifteen state agencies, Laws 2002, Chapter 210 returned their budgets to a "one" year cycle beginning with the 2003 Legislative Session (fiscal year 2004 budget request). In prior years the "large" agencies have accounted for approximately ninety percent or more of the appropriations for the General Fund.

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

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

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

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

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY COMPARISON SCHEDULES**  
JUNE 30, 2004

During the fiscal year, \$374.653 million in supplemental appropriations net of increases and reversions were provided to major and non-major governmental funds to enhance various programs. The General Fund and the Transportation and Aviation Planning, Highway Maintenance and Safety Fund received \$281.318 and \$1.247 million, respectively, and those 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 State Department of Administration – Financial Services Division exercises oversight and does not disburse funds in excess of appropriations.

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

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

All expenditure of the State's money must be authorized by law. Authorization can be granted directly by law or contingent upon appropriation from the State Legislature. Periodically, the State Legislature may appropriate monies for program expenditures already authorized by law, resulting in duplicate spending authority. In appropriating monies, the State Legislature has, in some cases, included external funding sources as a portion of an agency's total program expenditure authorization (budget) and has identified the external funding sources as an offset against the program appropriations total in order to reflect the State funding amount. An example of this is found in the Department of Economic Security's Long Term Care appropriation line items on pages 129 and 130. Accordingly, sometimes program expenditures may not exhaust specific legislative appropriations. To properly present the total budget (appropriation) information, in relationship to "actual" expenditure amounts, duplicate expenditure authorizations have been eliminated from general fund budget (appropriation) totals on page 139.



STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
JUNE 30, 2004

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), the State of Arizona reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include 6,912 center lane miles (18,391 travel lane miles) of roads and 4,488 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 contains estimated expenditures for highway system improvements and the preservation of existing roadway’s and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Five-Year Transportation Facilities Construction Program, in effect for fiscal year 2005 and beyond, was adopted by the Transportation Board on June 18, 2004.

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

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

**Roads**

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

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

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2004

number is called “Present Serviceability Rating” (PSR). PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

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 2004, an overall rating of 3.8 was achieved, as shown in the following graph:

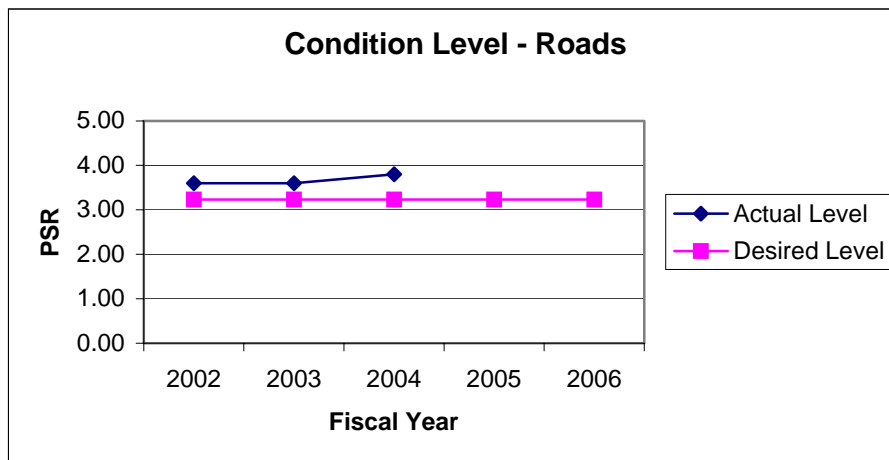


Figure 1

Preservation of the roads is accomplished through programs managed by the ADOT PMS, as well as other units within the Department. The estimated (as specified in the Program as programmed amounts) and actual expenditures for fiscal years 2002 through 2004 were as follows:

	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	\$227.4	\$234.8
2003	\$243.5	\$220.8
2004	\$198.5	\$215.5

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
 JUNE 30, 2004

**Bridges**

Bridges constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2004, the State owns and maintains 4,488 bridges with an approximate total deck area of 41,189,551 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge-related data and assist bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

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

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

Management of the bridge inventory is a major function of ADOT's Bridge Group, and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of the State to maintain State highway bridges so that the CRI exceeds 92.5%. In fiscal year 2004, the CRI was computed at 93.8%.

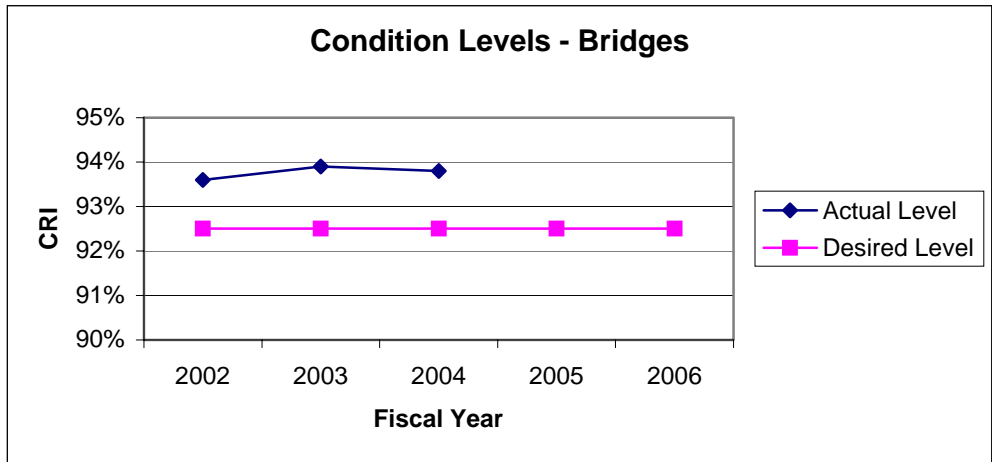


Figure 2

Bridges represent a major public investment and their inspection and maintenance is an essential function of the State in its mission of products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 65% of the bridges in the State were constructed prior to the 1970s while only 22% have been constructed in the last two decades.

**Age of ADOT's Bridge Population**

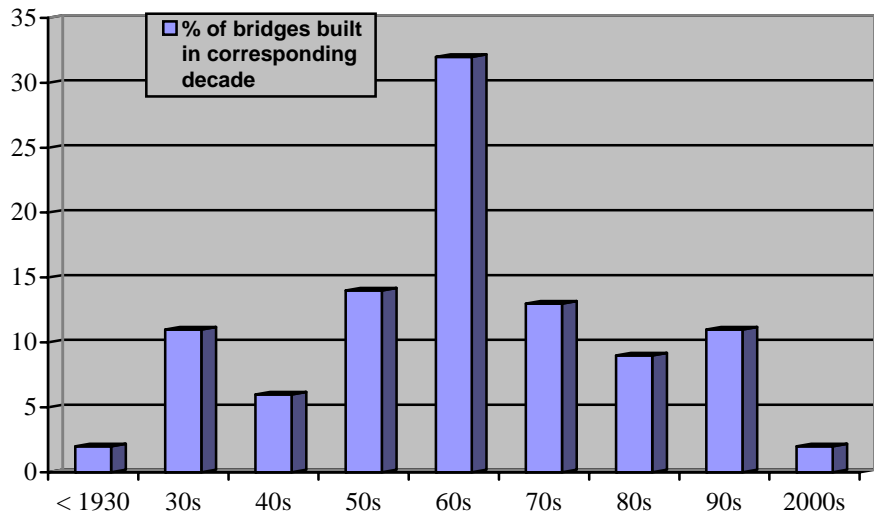


Figure 3

STATE OF ARIZONA  
REQUIRED SUPPLEMENTARY INFORMATION  
**INFRASTRUCTURE ASSETS**  
JUNE 30, 2004

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 2002 through 2004 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	\$14.4	\$18.2
2003	\$13.6	\$15.8
2004	\$12.1	\$12.2

STATE OF ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
**AGENT RETIREMENT PLANS' FUNDING PROGRESS**  
 JUNE 30, 2004

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

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	(Unfunded)/ Funding Excess	Funded Ratio	Annual Covered Payroll	(Unfunded)/ Funding Excess as Percentage of Covered Payroll
PSPRS	6/30/2004	\$ 588,237	\$ 635,120	\$ (46,883)	92.6%	\$ 69,576	(67.4)%
	6/30/2003	612,183	594,058	18,125	103.1%	71,364	25.4%
	6/30/2002	618,490	534,873	83,617	115.6%	69,923	119.6%
CORP	6/30/2004	649,029	618,373	30,656	105.0%	296,028	10.4%
	6/30/2003	632,635	552,740	79,895	114.5%	286,197	27.9%
	6/30/2002	613,427	495,124	118,303	123.9%	266,189	44.4%

**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, general 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, 2004  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ 1,674	\$ -	\$ -	\$ 1,674
Cash and pooled investments with State Treasurer	637,716	7,787	-	645,503
Receivables, net of allowances:				
Taxes	17,467	-	-	17,467
Interest	860	302	431	1,593
Other	20,230	-	-	20,230
Due from others	1	-	-	1
Due from other Funds	49,612	-	-	49,612
Inventories, at cost	2,542	-	-	2,542
Restricted assets:				
Cash and pooled investments with State Treasurer	174	19,773	119,368	139,315
Cash held by trustee	12,356	46	10,355	22,757
Other	1	-	-	1
<b>Total Assets</b>	<b>\$ 742,633</b>	<b>\$ 27,908</b>	<b>\$ 130,154</b>	<b>\$ 900,695</b>

**LIABILITIES AND FUND BALANCES**

Liabilities:

Accounts payable and other current

liabilities	\$ 166,377	\$ 197	\$ 1,238	\$ 167,812
Accrued liabilities	14,602	-	-	14,602
Due to local governments	1,288	-	-	1,288
Due to others	262	-	-	262
Due to other Funds	25,086	18	-	25,104
Unavailable deferred revenue	1,512	-	-	1,512
Unearned deferred revenue	151	-	-	151
<b>Total Liabilities</b>	<b>209,278</b>	<b>215</b>	<b>1,238</b>	<b>210,731</b>

Fund Balances:

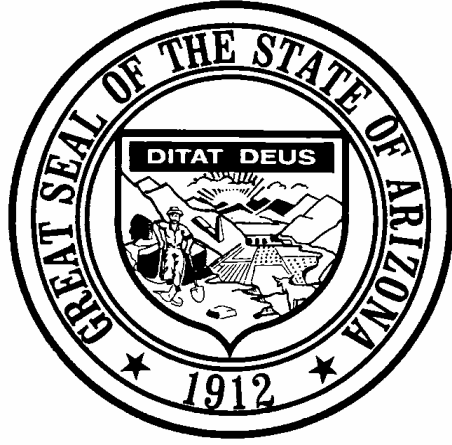
Reserved for:

Highway construction	-	-	87,751	87,751
Other construction	-	-	41,165	41,165
School facilities improvements	17,808	-	-	17,808
Continuing appropriations	28,298	-	-	28,298
Debt service	-	27,693	-	27,693
Other fund balance reservations	144	-	-	144
Unreserved	487,105	-	-	487,105
<b>Total Fund Balances</b>	<b>533,355</b>	<b>27,693</b>	<b>128,916</b>	<b>689,964</b>

<b>Total Liabilities and Fund Balances</b>	<b>\$ 742,633</b>	<b>\$ 27,908</b>	<b>\$ 130,154</b>	<b>\$ 900,695</b>
--	-------------------	------------------	-------------------	-------------------

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTAL
<b>REVENUES</b>				
Taxes:				
Sales	\$ 429,122	\$ 66,053	\$ -	\$ 495,175
Income	45	-	-	45
Tobacco	165,333	-	-	165,333
Property	1,242	-	-	1,242
Motor vehicle and fuel	88	-	-	88
Other	108,117	-	-	108,117
Intergovernmental	38,789	-	-	38,789
Licenses, fees and permits	153,774	-	-	153,774
Earnings on investments	6,404	2,073	3,064	11,541
Sales and charges for services	31,853	-	-	31,853
Fines, forfeitures and penalties	87,284	-	-	87,284
Gaming	53,905	-	-	53,905
Other	44,166	-	-	44,166
Total Revenues	<u>1,120,122</u>	<u>68,126</u>	<u>3,064</u>	<u>1,191,312</u>
<b>EXPENDITURES</b>				
Current:				
General government	90,838	-	-	90,838
Health and welfare	283,135	-	-	283,135
Inspection and regulation	91,367	-	-	91,367
Education	614,743	-	-	614,743
Protection and safety	103,315	-	-	103,315
Transportation	-	-	37,492	37,492
Natural resources	104,092	-	-	104,092
Debt service:				
Principal	489	321,080	-	321,569
Interest and other fiscal charges	9,003	140,438	2,585	152,026
Capital outlay	13,620	-	344,671	358,291
Total Expenditures	<u>1,310,602</u>	<u>461,518</u>	<u>384,748</u>	<u>2,156,868</u>
(Deficiency) of Revenues Over Expenditures	<u>(190,480)</u>	<u>(393,392)</u>	<u>(381,684)</u>	<u>(965,556)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	193,322	403,608	-	596,930
Transfers out	(238,994)	(1,626)	(54,042)	(294,662)
Capital lease and installment purchase contracts	195	-	-	195
Refunding bonds issued	-	107,940	-	107,940
Payment to refunded bond escrow agent	-	(145,965)	-	(145,965)
Bonds issued	247,125	274	142,347	389,746
Premium on bonds issued	-	13,189	8,835	22,024
Refunding grant anticipation notes issued	-	22,633	-	22,633
Grant anticipation notes issued	-	-	177,322	177,322
Premium on grant anticipation notes issued	-	-	9,623	9,623
Refunding certificates of participation issued	-	16,725	-	16,725
Payment to refunded certificate of participation escrow agent	-	(17,273)	-	(17,273)
Certificates of participation issued	-	-	31,965	31,965
Premium on certificates of participation issued	-	548	1,386	1,934
Total Other Financing Sources (Uses)	<u>201,648</u>	<u>400,053</u>	<u>317,436</u>	<u>919,137</u>
Net Change in Fund Balances	11,168	6,661	(64,248)	(46,419)
Fund Balances - Beginning	522,187	21,032	193,164	736,383
Fund Balances - Ending	<u>\$ 533,355</u>	<u>\$ 27,693</u>	<u>\$ 128,916</u>	<u>\$ 689,964</u>



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

**The School Facilities Revenue Bond Proceeds Fund** accounts for the receipt of the Education Transaction Privilege Revenue Bond proceeds. Funds are restricted to be expended to (1) pay the costs of correcting existing deficiencies in public school facilities for grades K-12, (2) pay bond related expenses, and (3) fully or partially fund any reserves or sinking fund accounts established by the bond resolution.

**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; and 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 land, 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 statewide water protection planning; storage of Colorado River water; statewide water and groundwater conservation; county and metropolitan areas water use and dam repairs. All of 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, 2004  
(Expressed in Thousands)

	SCHOOL FACILITIES PROCEEDS	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES
<b>ASSETS</b>						
Cash	\$ -	\$ 1,596	\$ 14	\$ -	\$ -	\$ 2
Cash and pooled investments with State Treasurer	5,431	71,221	81,427	41,819	11,559	27,554
Receivables, net of allowances:						
Taxes	-	3,888	-	2,477	11,102	-
Interest	21	78	149	26	19	29
Other	-	64	-	6,080	-	11
Due from others	-	1	-	-	-	-
Due from other Funds	-	6,003	8,989	2,829	-	951
Inventories, at cost	-	2,542	-	-	-	-
Restricted assets:						
Cash and pooled investments with State Treasurer	-	-	-	174	-	-
Cash held by trustee	12,356	-	-	-	-	-
Other	-	-	-	-	-	-
<b>Total Assets</b>	<b>\$ 17,808</b>	<b>\$ 85,393</b>	<b>\$ 90,579</b>	<b>\$ 53,405</b>	<b>\$ 22,680</b>	<b>\$ 28,547</b>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities:</b>						
Accounts payable and other current liabilities	\$ -	\$ 10,193	\$ 38,908	\$ 3,946	\$ 1,316	\$ 1,031
Accrued liabilities	-	502	514	10,146	33	283
Due to local governments	-	-	-	-	-	-
Due to others	-	18	-	-	-	-
Due to other Funds	-	105	11,707	2,132	10,299	21
Unavailable deferred revenue	-	-	-	1,512	-	-
Unearned deferred revenue	-	15	-	131	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>10,833</b>	<b>51,129</b>	<b>17,867</b>	<b>11,648</b>	<b>1,335</b>
<b>Fund Balances:</b>						
Reserved for:						
School facilities improvements	17,808	-	-	-	-	-
Continuing appropriations	-	3,916	1,474	2,006	-	304
Other fund balance reservations	-	81	1	-	-	-
Unreserved	-	70,563	37,975	33,532	11,032	26,908
<b>Total Fund Balances</b>	<b>17,808</b>	<b>74,560</b>	<b>39,450</b>	<b>35,538</b>	<b>11,032</b>	<b>27,212</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 17,808</b>	<b>\$ 85,393</b>	<b>\$ 90,579</b>	<b>\$ 53,405</b>	<b>\$ 22,680</b>	<b>\$ 28,547</b>

REGULATING & LICENSING	GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ 27	\$ 30	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 1,674
91,075	30,839	49,565	50,322	119,204	39,669	18,031	637,716
-	-	-	-	-	-	-	17,467
50	61	120	201	2	104	-	860
2,433	1,301	-	140	10,201	-	-	20,230
-	-	-	-	-	-	-	1
1,070	1,654	1,737	21,175	5,204	-	-	49,612
-	-	-	-	-	-	-	2,542
-	-	-	-	-	-	-	174
-	-	-	-	-	-	-	12,356
-	-	-	1	-	-	-	1
<u>\$ 94,655</u>	<u>\$ 33,885</u>	<u>\$ 51,427</u>	<u>\$ 71,839</u>	<u>\$ 134,611</u>	<u>\$ 39,773</u>	<u>\$ 18,031</u>	<u>\$ 742,633</u>

\$ 1,948	\$ 1,216	\$ 1,343	\$ 274	\$ 106,149	\$ 53	\$ -	\$ 166,377
1,802	976	103	122	63	40	18	14,602
-	-	-	-	1,288	-	-	1,288
241	3	-	-	-	-	-	262
658	144	15	3	1	1	-	25,086
-	-	-	-	-	-	-	1,512
-	-	-	5	-	-	-	151
<u>4,649</u>	<u>2,339</u>	<u>1,461</u>	<u>404</u>	<u>107,501</u>	<u>94</u>	<u>18</u>	<u>209,278</u>

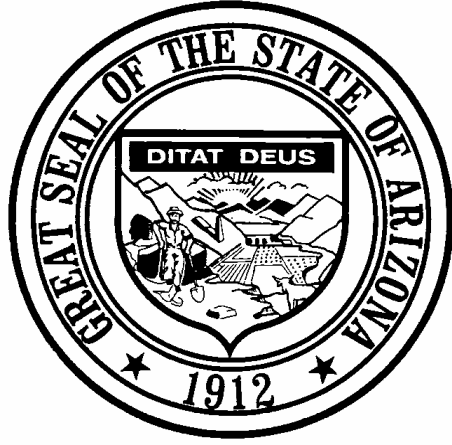
-	-	-	-	-	-	-	17,808
5,431	4,880	2,435	4,015	3,837	-	-	28,298
27	30	5	-	-	-	-	144
<u>84,548</u>	<u>26,636</u>	<u>47,526</u>	<u>67,420</u>	<u>23,273</u>	<u>39,679</u>	<u>18,013</u>	<u>487,105</u>
<u>90,006</u>	<u>31,546</u>	<u>49,966</u>	<u>71,435</u>	<u>27,110</u>	<u>39,679</u>	<u>18,013</u>	<u>533,355</u>
<u>\$ 94,655</u>	<u>\$ 33,885</u>	<u>\$ 51,427</u>	<u>\$ 71,839</u>	<u>\$ 134,611</u>	<u>\$ 39,773</u>	<u>\$ 18,031</u>	<u>\$ 742,633</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, 2004  
(Expressed in Thousands)

	SCHOOL FACILITIES PROCEEDS	PUBLIC SAFETY & CORRECTIONAL PROGRAMS	ENVIRONMENTAL PROTECTION	HEALTHCARE & SOCIAL SERVICES	TOBACCO TAX & HEALTHCARE	JUDICIAL & LEGAL SERVICES
<b>REVENUES</b>						
Taxes:						
Sales	\$ -	\$ 25,769	\$ -	\$ 6,313	\$ -	\$ -
Income	-	-	-	-	-	-
Tobacco	-	-	-	27,843	137,490	-
Property	-	-	-	-	-	-
Motor vehicle and fuel	-	-	-	-	-	-
Other	-	53,135	2,197	11,956	3,923	-
Intergovernmental	-	5,473	124	8,978	-	3,576
Licenses, fees and permits	-	12,122	41,268	5,543	-	1,287
Earnings on investments	436	523	942	1,236	113	210
Sales and charges for services	-	27,964	71	403	238	288
Fines, forfeitures and penalties	-	37,984	1,634	9,351	-	29,115
Gaming	-	-	-	12,616	-	-
Other	-	6,537	207	3,521	-	749
Total Revenues	436	169,507	46,443	87,760	141,764	35,225
<b>EXPENDITURES</b>						
Current:						
General government	-	26,929	1,025	4,026	-	30,692
Health and welfare	-	-	98,162	68,128	116,760	-
Inspection and regulation	-	-	1,167	-	-	15
Education	234,673	-	-	111	-	-
Protection and safety	-	103,315	-	-	-	-
Natural resources	-	17,411	704	-	-	-
Debt service:						
Principal	-	430	-	-	-	-
Interest and other fiscal charges	8,304	694	-	-	-	5
Capital outlay	-	4,423	119	96	9	15
Total Expenditures	242,977	153,202	101,177	72,361	116,769	30,727
Excess (Deficiency) of Revenues						
Over Expenditures	(242,541)	16,305	(54,734)	15,399	24,995	4,498
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	1,422	86,868	60,858	5,021	6	1,385
Transfers out	(22,091)	(115,692)	(17,436)	(26,781)	(21,687)	(2,643)
Capital lease and installment purchase contracts	-	-	-	-	-	-
Bonds issued	247,125	-	-	-	-	-
Total Other Financing Sources (Uses)	226,456	(28,824)	43,422	(21,760)	(21,681)	(1,258)
Net Change in Fund Balances	(16,085)	(12,519)	(11,312)	(6,361)	3,314	3,240
Fund Balances - Beginning	33,893	87,079	50,762	41,899	7,718	23,972
Fund Balances - Ending	\$ 17,808	\$ 74,560	\$ 39,450	\$ 35,538	\$ 11,032	\$ 27,212



REGULATING & LICENSING	GAME & FISH	STATE PARKS DEVELOPMENT	BUSINESS DEVELOPMENT	EDUCATIONAL PROGRAMS	GROUNDWATER PROTECTION & CONSERVATION	CLEAN ELECTIONS SYSTEM	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 397,040	\$ -	\$ -	\$ 429,122
-	-	-	-	45	-	-	45
-	-	-	-	-	-	-	165,333
-	-	1,242	-	-	-	-	1,242
-	88	-	-	-	-	-	88
36,906	-	-	-	-	-	-	108,117
1,333	15,775	-	1,882	1,648	-	-	38,789
60,304	21,416	413	3,117	94	8,210	-	153,774
367	439	719	690	23	706	-	6,404
557	339	-	234	1,690	69	-	31,853
1,708	176	-	-	-	-	7,316	87,284
11,125	3,612	-	-	26,552	-	-	53,905
3,754	2,314	250	19,349	1,438	1,711	4,336	44,166
<u>116,054</u>	<u>44,159</u>	<u>2,624</u>	<u>25,272</u>	<u>428,530</u>	<u>10,696</u>	<u>11,652</u>	<u>1,120,122</u>
1,193	-	-	25,302	-	-	1,671	90,838
85	-	-	-	-	-	-	283,135
90,185	-	-	-	-	-	-	91,367
283	-	-	-	379,676	-	-	614,743
-	-	-	-	-	-	-	103,315
-	46,979	16,933	142	-	21,923	-	104,092
57	-	-	-	-	-	2	489
-	-	-	-	-	-	-	9,003
1,189	4,518	2,601	29	621	-	-	13,620
<u>92,992</u>	<u>51,497</u>	<u>19,534</u>	<u>25,473</u>	<u>380,297</u>	<u>21,923</u>	<u>1,673</u>	<u>1,310,602</u>
<u>23,062</u>	<u>(7,338)</u>	<u>(16,910)</u>	<u>(201)</u>	<u>48,233</u>	<u>(11,227)</u>	<u>9,979</u>	<u>(190,480)</u>
95	10,021	19,399	2,675	5,072	500	-	193,322
(6,437)	(1,000)	(8,826)	(3,029)	(518)	(9,000)	(3,854)	(238,994)
195	-	-	-	-	-	-	195
-	-	-	-	-	-	-	247,125
<u>(6,147)</u>	<u>9,021</u>	<u>10,573</u>	<u>(354)</u>	<u>4,554</u>	<u>(8,500)</u>	<u>(3,854)</u>	<u>201,648</u>
16,915	1,683	(6,337)	(555)	52,787	(19,727)	6,125	11,168
73,091	29,863	56,303	71,990	(25,677)	59,406	11,888	522,187
<u>\$ 90,006</u>	<u>\$ 31,546</u>	<u>\$ 49,966</u>	<u>\$ 71,435</u>	<u>\$ 27,110</u>	<u>\$ 39,679</u>	<u>\$ 18,013</u>	<u>\$ 533,355</u>



## **NON-MAJOR GOVERNMENTAL FUNDS DEBT SERVICE FUNDS**

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

**The Maricopa Regional Area Road Fund** administers the payment of principal and interest on Arizona Transportation Excise Tax Revenue Bonds issued by the Arizona Department of Transportation Board.

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

**The School Facilities Debt Instrument Fund** administers the payment of principal and interest on Revenue Bonds issued by the State of Arizona's School Facilities Board.

**The Grant Anticipation Notes Fund** administers the payment of principal and interest on Grant Anticipation Notes issued by the Arizona Department of Transportation Board.

STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR DEBT SERVICE FUNDS  
JUNE 30, 2004  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES
<b>ASSETS</b>					
Cash and pooled investments with State Treasurer	\$ -	\$ -	\$ -	\$ 7,787	\$ -
Interest receivable	178	81	-	43	-
Restricted assets:					
Cash and pooled investments with State Treasurer	1,055	16,544	1,290	-	884
Cash held by trustee	-	-	46	-	-
<b>Total Assets</b>	<b>\$ 1,233</b>	<b>\$ 16,625</b>	<b>\$ 1,336</b>	<b>\$ 7,830</b>	<b>\$ 884</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and other current liabilities	\$ -	\$ -	\$ 47	\$ -	\$ 150
Due to other Funds	-	-	18	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>65</b>	<b>-</b>	<b>150</b>
Fund Balances:					
Reserved for:					
Debt service	1,233	16,625	1,271	7,830	734
<b>Total Fund Balances</b>	<b>1,233</b>	<b>16,625</b>	<b>1,271</b>	<b>7,830</b>	<b>734</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,233</b>	<b>\$ 16,625</b>	<b>\$ 1,336</b>	<b>\$ 7,830</b>	<b>\$ 884</b>

TOTAL

\$ 7,787  
302

19,773  
46

\$ 27,908

\$ 197  
18  
215

27,693  
27,693  
\$ 27,908

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR DEBT SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES
<b>REVENUES</b>					
Taxes:					
Sales	\$ -	\$ -	\$ -	\$ 66,053	\$ -
Earnings on investments	514	1,399	49	110	1
Total Revenues	<u>514</u>	<u>1,399</u>	<u>49</u>	<u>66,163</u>	<u>1</u>
<b>EXPENDITURES</b>					
Debt service:					
Principal	51,155	199,400	9,050	27,215	34,260
Interest and other fiscal charges	53,487	23,653	11,909	38,554	12,835
Total Expenditures	<u>104,642</u>	<u>223,053</u>	<u>20,959</u>	<u>65,769</u>	<u>47,095</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(104,128)</u>	<u>(221,654)</u>	<u>(20,910)</u>	<u>394</u>	<u>(47,094)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	102,692	222,100	21,665	7,091	50,060
Transfers out	-	-	(203)	(1,423)	-
Refunding bonds issued	107,940	-	-	-	-
Payment to refunded bond escrow agent	(119,556)	-	-	-	(26,409)
Bonds issued	274	-	-	-	-
Premium on bonds issued	11,645	-	-	-	1,544
Refunding grant anticipation notes issued	-	-	-	-	22,633
Refunding certificates of participation issued	-	-	16,725	-	-
Payment to refunded certificate of participation escrow agent	-	-	(17,273)	-	-
Premium on certificates of participation issued	-	-	548	-	-
Total Other Financing Sources (Uses)	<u>102,995</u>	<u>222,100</u>	<u>21,462</u>	<u>5,668</u>	<u>47,828</u>
Net Change in Fund Balances	<u>(1,133)</u>	<u>446</u>	<u>552</u>	<u>6,062</u>	<u>734</u>
Fund Balances - Beginning	2,366	16,179	719	1,768	-
Fund Balances - Ending	<u>\$ 1,233</u>	<u>\$ 16,625</u>	<u>\$ 1,271</u>	<u>\$ 7,830</u>	<u>\$ 734</u>

TOTAL

\$ 66,053  
2,073  
68,126

321,080  
140,438  
461,518

(393,392)

403,608  
(1,626)  
107,940  
(145,965)  
274  
13,189  
22,633  
16,725

(17,273)

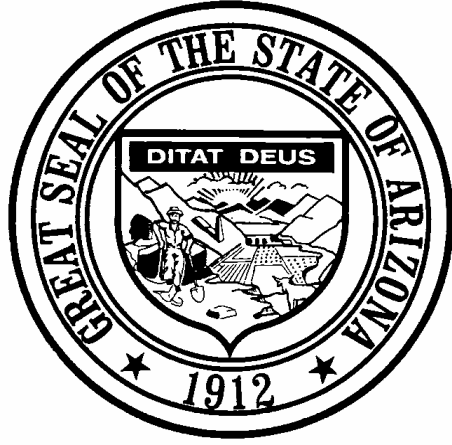
548

400,053

6,661

21,032

\$ 27,693





## **NON-MAJOR GOVERNMENTAL FUNDS CAPITAL PROJECTS FUNDS**

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

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

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

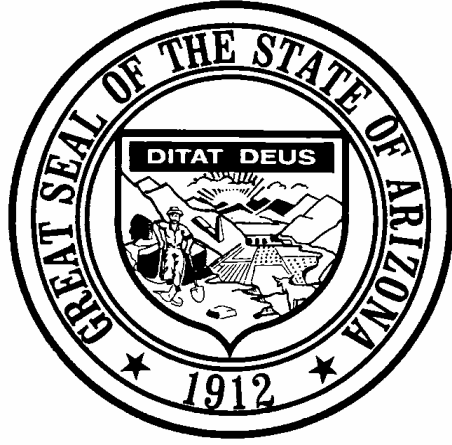
STATE OF ARIZONA  
**COMBINING BALANCE SHEET**  
NON-MAJOR CAPITAL PROJECTS FUNDS  
JUNE 30, 2004  
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
<b>ASSETS</b>				
Receivables, net of allowances:				
Interest	\$ 283	\$ 148	\$ -	\$ 431
Restricted assets:				
Cash and pooled investments with				
State Treasurer	63,328	24,223	31,817	119,368
Cash held by trustee	-	-	10,355	10,355
Total Assets	<u>\$ 63,611</u>	<u>\$ 24,371</u>	<u>\$ 42,172</u>	<u>\$ 130,154</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other current				
liabilities	\$ 88	\$ 143	\$ 1,007	\$ 1,238
Total Liabilities	<u>88</u>	<u>143</u>	<u>1,007</u>	<u>1,238</u>
Fund Balances:				
Reserved for:				
Highway construction	63,523	24,228	-	87,751
Other construction	-	-	41,165	41,165
Total Fund Balances	<u>63,523</u>	<u>24,228</u>	<u>41,165</u>	<u>128,916</u>
Total Liabilities and Fund Balances	<u>\$ 63,611</u>	<u>\$ 24,371</u>	<u>\$ 42,172</u>	<u>\$ 130,154</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES**  
NON-MAJOR CAPITAL PROJECTS FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004.

(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	GRANT ANTICIPATION NOTES FINANCED	CERTIFICATES OF PARTICIPATION FINANCED	TOTAL
<b>REVENUES</b>				
Earnings on investments	\$ 1,020	\$ 750	\$ 1,294	\$ 3,064
Total Revenues	<u>1,020</u>	<u>750</u>	<u>1,294</u>	<u>3,064</u>
<b>EXPENDITURES</b>				
Current:				
Transportation	37,492	-	-	37,492
Debt service:				
Interest and other fiscal charges	1,145	1,099	341	2,585
Capital outlay	158,986	159,417	26,268	344,671
Total Expenditures	<u>197,623</u>	<u>160,516</u>	<u>26,609</u>	<u>384,748</u>
(Deficiency) of Revenues Over Expenditures	<u>(196,603)</u>	<u>(159,766)</u>	<u>(25,315)</u>	<u>(381,684)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(50,733)	(2,961)	(348)	(54,042)
Bonds issued	142,347	-	-	142,347
Premium on bonds issued	8,835	-	-	8,835
Grant anticipation notes issued	-	177,322	-	177,322
Premium on grant anticipation notes issued	-	9,623	-	9,623
Certificates of participation issued	-	-	31,965	31,965
Premium on certificates of participation issued	-	-	1,386	1,386
Total Other Financing Sources (Uses)	<u>100,449</u>	<u>183,984</u>	<u>33,003</u>	<u>317,436</u>
Net Change in Fund Balances	<u>(96,154)</u>	<u>24,218</u>	<u>7,688</u>	<u>(64,248)</u>
Fund Balances - Beginning	<u>159,677</u>	<u>10</u>	<u>33,477</u>	<u>193,164</u>
Fund Balances - Ending	<u>\$ 63,523</u>	<u>\$ 24,228</u>	<u>\$ 41,165</u>	<u>\$ 128,916</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 Arizona Industries for the Blind Fund** accounts for the manufacturing, sale, distribution and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

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

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

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

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

**The Healthcare Group of Arizona** administers prepaid medical coverage primarily to small, uninsured businesses with 2 to 50 employees and employees of political subdivisions. The HCGA processes premium billing, collections and fund disbursement, and data analysis and is responsible for the regulatory oversight of the health plans.

**The Other Enterprise Funds** consist of the Arizona Historical Society Revolving Fund, State Hospital Revolving Fund, and the State Home for Veterans Trust Fund.

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET ASSETS**  
NON-MAJOR ENTERPRISE FUNDS  
JUNE 30, 2004  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
<b>ASSETS</b>					
Current Assets:					
Cash	\$ 64	\$ 44	\$ -	\$ 21	\$ -
Cash and pooled investments with State Treasurer	1,191	3,242	1,636	2,560	-
Restricted cash and pooled investments with State Treasurer	-	-	-	-	91,639
Short-term investments	-	-	-	-	-
Receivables, net of allowances:					
Interest	1	15	4	-	136
Loans and notes	-	-	-	-	9,219
Other	1,583	2,509	542	115	-
Due from U.S. Government	123	-	-	-	-
Due from local governments	-	-	-	-	386
Due from other Funds	5	-	-	-	106,232
Inventories, at cost	3,085	3,300	2,274	-	-
Other current assets	-	127	506	267	-
Total Current Assets	<u>6,052</u>	<u>9,237</u>	<u>4,962</u>	<u>2,963</u>	<u>207,612</u>
Noncurrent Assets:					
Restricted assets:					
Cash and pooled investments with State Treasurer	-	-	-	3,439	-
Loan and note receivables, net of allowances	-	-	-	-	18,329
Other long-term assets	-	-	179	-	-
Capital assets:					
Land, construction in progress and collections	182	846	8	223	-
Depreciable buildings, property and equipment, net of accumulated depreciation	1,555	1,606	802	3,658	-
Total Noncurrent Assets	<u>1,737</u>	<u>2,452</u>	<u>989</u>	<u>7,320</u>	<u>18,329</u>
Total Assets	<u>7,789</u>	<u>11,689</u>	<u>5,951</u>	<u>10,283</u>	<u>225,941</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	963	970	129	92	-
Accrued liabilities	183	195	86	82	7
Due to others	-	-	-	-	-
Due to other Funds	-	-	-	-	162,414
Unearned deferred revenue	-	-	3,903	-	-
Current portion of long-term debt	50	-	-	17	-
Current portion of other long-term liabilities	158	233	131	179	20
Total Current Liabilities	<u>1,354</u>	<u>1,398</u>	<u>4,249</u>	<u>370</u>	<u>162,441</u>
Noncurrent Liabilities:					
Long-term debt	30	-	-	58	-
Other long-term liabilities	73	-	-	-	-
Total Noncurrent Liabilities	<u>103</u>	<u>-</u>	<u>-</u>	<u>58</u>	<u>-</u>
Total Liabilities	<u>1,457</u>	<u>1,398</u>	<u>4,249</u>	<u>428</u>	<u>162,441</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,737	2,452	810	3,881	-
Restricted for:					
Loans and other financial assistance	-	-	-	-	63,500
Unrestricted	4,595	7,839	892	5,974	-
Total Net Assets	<u>\$ 6,332</u>	<u>\$ 10,291</u>	<u>\$ 1,702</u>	<u>\$ 9,855</u>	<u>\$ 63,500</u>

HEALTHCARE  
GROUP OF  
ARIZONA

	OTHER	TOTAL
\$ -	\$ 239	\$ 368
7,718	1,764	18,111
-	-	91,639
-	61	61
-	3	159
-	-	9,219
-	473	5,222
-	-	123
-	-	386
300	29	106,566
-	4	8,663
8	-	908
<u>8,026</u>	<u>2,573</u>	<u>241,425</u>
-	-	3,439
-	-	18,329
-	-	179
-	980	2,239
<u>220</u>	<u>9,871</u>	<u>17,712</u>
<u>220</u>	<u>10,851</u>	<u>41,898</u>
<u>8,246</u>	<u>13,424</u>	<u>283,323</u>
56	212	2,422
828	253	1,634
-	169	169
-	2	162,416
4,247	-	8,150
-	-	67
66	-	787
<u>5,197</u>	<u>636</u>	<u>175,645</u>
-	-	88
-	-	73
-	-	161
<u>5,197</u>	<u>636</u>	<u>175,806</u>
220	10,851	19,951
-	-	63,500
<u>2,829</u>	<u>1,937</u>	<u>24,066</u>
<u>\$ 3,049</u>	<u>\$ 12,788</u>	<u>\$ 107,517</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
<b>OPERATING REVENUES</b>					
Sales and charges for services	\$ 19,098	\$ 19,915	\$ 9,271	\$ 10,256	\$ -
Intergovernmental	778	-	-	-	-
Licenses, fees and permits	-	-	-	-	-
Earnings on investments	-	-	-	-	3,529
Other	69	-	505	704	-
Total Operating Revenues	<u>19,945</u>	<u>19,915</u>	<u>9,776</u>	<u>10,960</u>	<u>3,529</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	13,477	16,760	5,908	1,560	1
Interest on notes payable	-	-	-	-	4,097
Personal services	3,954	1,815	2,823	4,339	215
Contractual services	1,301	106	363	2,255	99
Depreciation and amortization	316	453	320	1,178	-
Insurance	-	-	-	429	-
Other	76	386	593	1,341	1
Total Operating Expenses	<u>19,124</u>	<u>19,520</u>	<u>10,007</u>	<u>11,102</u>	<u>4,413</u>
Operating Income (Loss)	<u>821</u>	<u>395</u>	<u>(231)</u>	<u>(142)</u>	<u>(884)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Gain (loss) on sale of capital assets	-	18	(2)	-	-
Investment income	9	72	28	54	1,135
Other non-operating revenue	-	-	-	398	-
Interest expense	(2)	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>7</u>	<u>90</u>	<u>26</u>	<u>452</u>	<u>1,135</u>
Income (Loss) Before Transfers	<u>828</u>	<u>485</u>	<u>(205)</u>	<u>310</u>	<u>251</u>
Transfers in	123	-	-	-	-
Transfers out	-	(1,000)	-	(1,000)	-
Change in Net Assets	951	(515)	(205)	(690)	251
Total Net Assets - Beginning	<u>5,381</u>	<u>10,806</u>	<u>1,907</u>	<u>10,545</u>	<u>63,249</u>
Total Net Assets - Ending	<u>\$ 6,332</u>	<u>\$ 10,291</u>	<u>\$ 1,702</u>	<u>\$ 9,855</u>	<u>\$ 63,500</u>

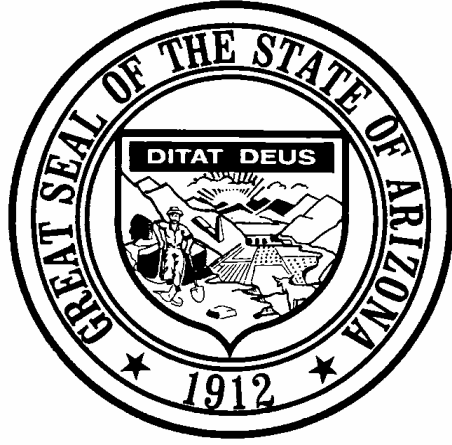


HEALTHCARE		
GROUP OF		
ARIZONA	OTHER	TOTAL
\$ 30,602	\$ 10,288	\$ 99,430
-	-	778
-	589	589
-	-	3,529
-	30	1,308
<u>30,602</u>	<u>10,907</u>	<u>105,634</u>
31,693	309	69,708
-	-	4,097
1,022	9,279	23,447
270	948	5,342
6	332	2,605
-	176	605
446	1,295	4,138
<u>33,437</u>	<u>12,339</u>	<u>109,942</u>
<u>(2,835)</u>	<u>(1,432)</u>	<u>(4,308)</u>
-	-	16
146	30	1,474
-	-	398
-	-	(2)
<u>146</u>	<u>30</u>	<u>1,886</u>
<u>(2,689)</u>	<u>(1,402)</u>	<u>(2,422)</u>
2,989	282	3,394
-	-	(2,000)
300	(1,120)	(1,028)
2,749	13,908	108,545
<u>\$ 3,049</u>	<u>\$ 12,788</u>	<u>\$ 107,517</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
NON-MAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	ARIZONA INDUSTRIES FOR THE BLIND	ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA HIGHWAYS MAGAZINE	COLISEUM & EXPOSITION CENTER	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 18,514	\$ 19,681	\$ 8,873	\$ 10,970	\$ 1,907
Receipts from federal and local governments	713	-	-	-	-
Receipts from other Funds	-	-	-	-	71,934
Payments to suppliers	(13,538)	(17,893)	(6,474)	(5,841)	(34)
Payments to employees	(3,905)	(1,770)	(2,851)	(4,323)	(213)
Payments to other Funds	-	-	-	-	(79,238)
Other receipts (payments)	(1,193)	(83)	507	-	(1)
Net Cash Provided (Used) by Operating Activities	<u>591</u>	<u>(65)</u>	<u>55</u>	<u>806</u>	<u>(5,645)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Transfers from other Funds	-	-	-	-	-
Transfers to other Funds	-	(1,000)	-	(1,000)	-
Other receipts (payments)	(3)	15	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(3)</u>	<u>(985)</u>	<u>-</u>	<u>(1,000)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition and construction of capital assets	(74)	(226)	(6)	(295)	-
Other receipts	-	-	-	473	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(74)</u>	<u>(226)</u>	<u>(6)</u>	<u>178</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	-	-	-	2,900	-
Interest and dividends from investments	8	75	28	85	1,250
Purchase of investments	(2)	-	-	(2,901)	-
Net Cash Provided by Investing Activities	<u>6</u>	<u>75</u>	<u>28</u>	<u>84</u>	<u>1,250</u>
Net Increase (Decrease) in Cash and Cash Equivalents	520	(1,201)	77	68	(4,395)
Cash and Cash Equivalents - Beginning	735	4,472	1,559	5,952	96,034
Cash and Cash Equivalents - Ending	<u>\$ 1,255</u>	<u>\$ 3,271</u>	<u>\$ 1,636</u>	<u>\$ 6,020</u>	<u>\$ 91,639</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 821	\$ 395	\$ (231)	\$ (142)	\$ (884)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	316	453	320	1,178	-
Net changes in assets and liabilities:					
(Increase) decrease in receivables, net of allowances	(583)	(234)	(55)	10	-
(Increase) in due from U.S. Government	(65)	-	-	-	-
(Increase) in due from local governments	-	-	-	-	(6)
(Increase) decrease in due from other Funds	213	-	-	-	4,373
(Increase) decrease in inventories, at cost	(581)	(623)	384	-	-
(Increase) decrease in other assets	7	(74)	(1)	(263)	-
Increase (decrease) in accounts payable	551	(27)	6	7	-
Increase (decrease) in accrued liabilities	53	60	(27)	16	2
Increase in due to others	-	-	-	-	-
Increase (decrease) in due to other Funds	(100)	-	-	-	(9,131)
Increase (decrease) in deferred revenue	-	-	(340)	-	-
Increase (decrease) in other liabilities	(41)	(15)	(1)	-	1
Net Cash Provided (Used) by Operating Activities	<u>\$ 591</u>	<u>\$ (65)</u>	<u>\$ 55</u>	<u>\$ 806</u>	<u>\$ (5,645)</u>
<b>SCHEDULE OF NONCASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>					
Assets acquired under capital leases	\$ -	\$ -	\$ -	\$ 89	\$ -
Change in fair value of investments	-	-	-	-	(400)
Total Noncash Investing, Capital and Non-capital Financing Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89</u>	<u>\$ (400)</u>

HEALTHCARE GROUP OF ARIZONA			OTHER	TOTAL	
\$	30,969	\$	11,538	\$	102,452
	-		-		713
	-		-		71,934
	(34,346)		(2,824)		(80,950)
	(977)		(8,865)		(22,904)
	-		-		(79,238)
	-		200		(570)
	<u>(4,354)</u>		<u>49</u>		<u>(8,563)</u>
	1,504		-		1,504
	-		-		(2,000)
	-		(7)		5
	<u>1,504</u>		<u>(7)</u>		<u>(491)</u>
	(220)		-		(821)
	-		-		473
	<u>(220)</u>		<u>-</u>		<u>(348)</u>
	-		-		2,900
	146		31		1,623
	-		(2)		(2,905)
	<u>146</u>		<u>29</u>		<u>1,618</u>
	(2,924)		71		(7,784)
	<u>10,642</u>		<u>1,932</u>		<u>121,326</u>
\$	<u>7,718</u>	\$	<u>2,003</u>	\$	<u>113,542</u>
\$	(2,835)	\$	(1,432)	\$	(4,308)
	6		332		2,605
	(3)		715		(150)
	-		-		(65)
	-		-		(6)
	-		(29)		4,557
	-		(3)		(823)
	-		-		(331)
	78		119		734
	(2,013)		176		(1,733)
	-		169		169
	-		2		(9,229)
	369		-		29
	<u>44</u>		<u>-</u>		<u>(12)</u>
\$	<u>(4,354)</u>	\$	<u>49</u>	\$	<u>(8,563)</u>
\$	-	\$	-	\$	89
	-		3		(397)
\$	<u>-</u>	\$	<u>3</u>	\$	<u>(308)</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 Technologies and Telecommunications Fund** receives monies from State agencies for services related to the operation of the data processing and telecommunications programs.

**The Sick Leave Liability Fund (RASL)** accounts for monies paid out to retirees for their accumulated sick leave.

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

STATE OF ARIZONA  
**COMBINING STATEMENT OF NET ASSETS**  
INTERNAL SERVICE FUNDS  
JUNE 30, 2004  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TECHNOLOGIES & TELE- COMMUNICATIONS	SICK LEAVE LIABILITY
<b>ASSETS</b>					
Current Assets:					
Cash and pooled investments with State Treasurer	\$ 32,332	\$ 1,983	\$ 27,912	\$ 9,047	\$ 4,218
Receivables, net of allowances:					
Interest	-	1	-	-	-
Other	57	-	8,448	571	-
Due from others	-	-	-	-	-
Due from other Funds	2	-	-	1,773	-
Inventories, at cost	-	2,502	-	-	-
Other current assets	1,593	-	-	334	-
Total Current Assets	<u>33,984</u>	<u>4,486</u>	<u>36,360</u>	<u>11,725</u>	<u>4,218</u>
Noncurrent Assets:					
Capital assets:					
Depreciable buildings, property and equipment, net of accumulated depreciation	185	39,337	46	7,212	-
Total Noncurrent Assets	<u>185</u>	<u>39,337</u>	<u>46</u>	<u>7,212</u>	<u>-</u>
Total Assets	<u>34,169</u>	<u>43,823</u>	<u>36,406</u>	<u>18,937</u>	<u>4,218</u>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts payable and other current liabilities	2,010	201	39,250	2,453	-
Accrued liabilities	137	356	-	313	-
Due to other Funds	30	-	1,649	4	-
Current portion of accrued insurance losses	49,432	-	-	-	-
Current portion of long-term debt	-	562	-	-	-
Current portion of other long-term liabilities	234	573	98	667	6,025
Total Current Liabilities	<u>51,843</u>	<u>1,692</u>	<u>40,997</u>	<u>3,437</u>	<u>6,025</u>
Noncurrent Liabilities:					
Accrued insurance losses	193,696	-	-	-	-
Long-term debt	-	-	-	-	-
Other long-term liabilities	-	-	-	-	3,421
Total Noncurrent Liabilities	<u>193,696</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,421</u>
Total Liabilities	<u>245,539</u>	<u>1,692</u>	<u>40,997</u>	<u>3,437</u>	<u>9,446</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	185	38,776	46	7,212	-
Unrestricted	(211,555)	3,355	(4,637)	8,288	(5,228)
Total Net Assets	<u>\$ (211,370)</u>	<u>\$ 42,131</u>	<u>\$ (4,591)</u>	<u>\$ 15,500</u>	<u>\$ (5,228)</u>

MOTOR		TOTAL	
POOL			
\$	9,892	\$	85,384
	-		1
	827		9,903
	2		2
	1,054		2,829
	40		2,542
	5		1,932
	<u>11,820</u>		<u>102,593</u>
	<u>11,976</u>		<u>58,756</u>
	<u>11,976</u>		<u>58,756</u>
	<u>23,796</u>		<u>161,349</u>
	986		44,900
	20		826
	6		1,689
	-		49,432
	-		562
	34		7,631
	<u>1,046</u>		<u>105,040</u>
	-		193,696
	-		-
	-		3,421
	-		197,117
	<u>1,046</u>		<u>302,157</u>
	11,976		58,195
	<u>10,774</u>		<u>(199,003)</u>
\$	<u>22,750</u>	\$	<u>(140,808)</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF REVENUES,  
EXPENSES AND CHANGES IN FUND NET ASSETS**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TECHNOLOGIES & TELE- COMMUNICATIONS	SICK LEAVE LIABILITY
<b>OPERATING REVENUES</b>					
Sales and charges for services	\$ 90,956	\$ 32,298	\$ 446,489	\$ 29,558	\$ 10,604
Other	-	990	-	1	-
Total Operating Revenues	<u>90,956</u>	<u>33,288</u>	<u>446,489</u>	<u>29,559</u>	<u>10,604</u>
<b>OPERATING EXPENSES</b>					
Cost of sales and benefits	-	11,918	459,928	11,640	9,685
Personal services	4,461	10,948	-	10,121	-
Contractual services	24,273	447	-	1,761	-
Depreciation and amortization	79	5,967	-	3,358	-
Insurance	57,143	605	-	328	-
Other	1,055	959	-	3,443	-
Total Operating Expenses	<u>87,011</u>	<u>30,844</u>	<u>459,928</u>	<u>30,651</u>	<u>9,685</u>
Operating Income (Loss)	<u>3,945</u>	<u>2,444</u>	<u>(13,439)</u>	<u>(1,092)</u>	<u>919</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Gain on sale of capital assets	-	-	-	-	-
Investment income	-	19	-	-	-
Interest expense	(99)	(64)	-	(17)	-
Other non-operating revenue	6	-	-	-	-
Total Non-Operating Revenues (Expenses)	<u>(93)</u>	<u>(45)</u>	<u>-</u>	<u>(17)</u>	<u>-</u>
Income (Loss) Before Contributions and Transfers	<u>3,852</u>	<u>2,399</u>	<u>(13,439)</u>	<u>(1,109)</u>	<u>919</u>
Capital grants and contributions	-	-	-	-	-
Transfers out	(605)	(1,000)	-	(22)	-
Change in Net Assets	3,247	1,399	(13,439)	(1,131)	919
Total Net Assets - Beginning	(214,617)	40,732	8,848	16,631	(6,147)
Total Net Assets - Ending	<u>\$ (211,370)</u>	<u>\$ 42,131</u>	<u>\$ (4,591)</u>	<u>\$ 15,500</u>	<u>\$ (5,228)</u>



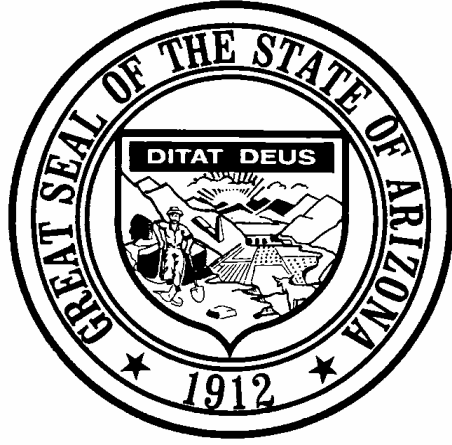
MOTOR			
POOL		TOTAL	
\$	11,126	\$	621,031
	4		995
	<u>11,130</u>		<u>622,026</u>
	4,147		497,318
	600		26,130
	137		26,618
	3,906		13,310
	1,644		59,720
	785		6,242
	<u>11,219</u>		<u>629,338</u>
	<u>(89)</u>		<u>(7,312)</u>
	173		173
	-		19
	-		(180)
	-		6
	<u>173</u>		<u>18</u>
	84		(7,294)
	453		453
	<u>(1,044)</u>		<u>(2,671)</u>
	(507)		(9,512)
	<u>23,257</u>		<u>(131,296)</u>
\$	<u>22,750</u>	\$	<u>(140,808)</u>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CASH FLOWS**  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	EMPLOYEE BENEFITS	TECHNOLOGIES & TELE- COMMUNICATIONS
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from interfund services / premiums	\$ 90,955	\$ 32,298	\$ 449,788	\$ 30,794
Payments to suppliers and insurance companies	(71,831)	(13,922)	(453,108)	(15,201)
Payments to employees	(4,440)	(10,933)	-	(10,051)
Payments to retirees	-	-	-	-
Other receipts	-	1,000	-	1
Net Cash Provided (Used) by Operating Activities	14,684	8,443	(3,320)	5,543
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Interest Paid	(99)	(64)	-	(17)
Transfers to other Funds	(605)	(1,000)	-	(22)
Other receipts	6	-	-	-
Net Cash (Used) by Non-capital Financing Activities	(698)	(1,064)	-	(39)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from sale of capital assets	-	1,004	-	-
Acquisition and construction of capital assets	(54)	(7,616)	(46)	(2,547)
Principal paid on capital debt, installment purchase contracts and capital leases	-	(1,708)	-	(481)
Net Cash (Used) by Capital and Related Financing Activities	(54)	(8,320)	(46)	(3,028)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends from investments	-	19	-	-
Net Cash Provided by Investing Activities	-	19	-	-
Net Increase (Decrease) in Cash and Cash Equivalents	13,932	(922)	(3,366)	2,476
Cash and Cash Equivalents - Beginning	18,400	2,905	31,278	6,571
Cash and Cash Equivalents - Ending	\$ 32,332	\$ 1,983	\$ 27,912	\$ 9,047
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 3,945	\$ 2,444	\$ (13,439)	\$ (1,092)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	79	5,967	-	3,358
Net changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	1	10	(1,043)	1,358
(Increase) in due from others	-	-	-	-
(Increase) decrease in due from other Funds	(2)	-	4,342	(122)
(Increase) in inventories, at cost	-	(131)	-	-
(Increase) decrease in other assets	(94)	-	-	67
Increase in accounts payable	663	50	5,073	1,908
Increase in accrued liabilities	35	107	-	70
Increase (decrease) in due to other Funds	23	-	1,649	(4)
Increase in accrued insurance losses	10,048	-	-	-
Increase (decrease) in other liabilities	(14)	(4)	98	-
Net Cash Provided (Used) by Operating Activities	\$ 14,684	\$ 8,443	\$ (3,320)	\$ 5,543

SICK LEAVE LIABILITY	MOTOR POOL	TOTAL
\$ 10,604	\$ 10,850	\$ 625,289
-	(6,234)	(560,296)
-	(577)	(26,001)
(9,128)	-	(9,128)
-	4	1,005
<u>1,476</u>	<u>4,043</u>	<u>30,869</u>
-	-	(180)
-	(1,044)	(2,671)
-	-	6
-	(1,044)	(2,845)
-	-	1,004
-	(790)	(11,053)
-	-	(2,189)
-	(790)	(12,238)
-	-	19
-	-	19
1,476	2,209	15,805
2,742	7,683	69,579
<u>\$ 4,218</u>	<u>\$ 9,892</u>	<u>\$ 85,384</u>

\$ 919	\$ (89)	\$ (7,312)
-	3,906	13,310
-	308	634
-	(2)	(2)
-	(582)	3,636
-	(29)	(160)
-	(5)	(32)
-	509	8,203
-	8	220
-	4	1,672
-	-	10,048
557	15	652
<u>\$ 1,476</u>	<u>\$ 4,043</u>	<u>\$ 30,869</u>



## **PENSION 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** 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** 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** is a cost-sharing, multiple-employer pension plan that benefits all elected State and county officials and judges and certain elected city officials.

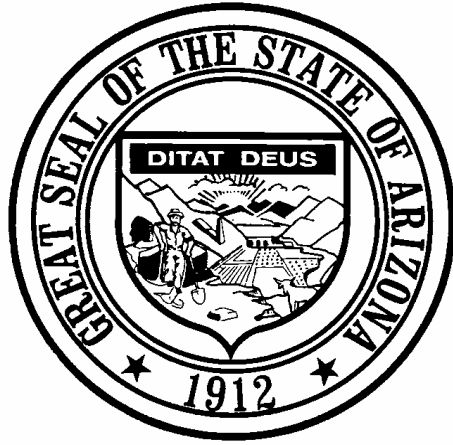
**The Corrections Officer Retirement Plan** is an agent multiple-employer pension plan that benefits town, city and county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
PENSION TRUST FUNDS  
JUNE 30, 2004  
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
<b>ASSETS</b>					
Cash	\$ 19,145	\$ -	\$ -	\$ -	\$ 19,145
Receivables, net of allowances:					
Accrued interest and dividends	65,186	25,923	1,781	4,496	97,386
Securities sold	309,235	-	-	-	309,235
Forward contract receivable	1,817,679	-	-	-	1,817,679
Contributions	18,474	9,515	69	122	28,180
Court fees	-	-	298	-	298
Miscellaneous receivables	1,719	-	-	-	1,719
Total receivables	2,212,293	35,438	2,148	4,618	2,254,497
Investments, at fair value:					
Temporary investments	1,993,462	-	-	-	1,993,462
Temporary investments from securities lending	2,289,996	-	-	-	2,289,996
U.S. Government securities	3,143,563	180,582	14,373	26,596	3,365,114
Corporate bonds	2,204,732	587,531	40,453	102,041	2,934,757
Corporate notes	-	164,927	7,995	33,484	206,406
Corporate stocks	14,680,860	3,091,719	212,443	508,338	18,493,360
Real estate mortgages and contracts	26,775	-	-	-	26,775
Collateral investment pool	-	827,031	50,519	145,654	1,023,204
Other investments	-	236,290	16,072	40,118	292,480
Money market fund	-	8,619	2,448	4,040	15,107
Total investments	24,339,388	5,096,699	344,303	860,271	30,640,661
Property and equipment, net of accumulated depreciation	-	4,629	-	-	4,629
Total Assets	26,570,826	5,136,766	346,451	864,889	32,918,932
<b>LIABILITIES</b>					
Accounts payable	1,828,025	-	-	-	1,828,025
Payable for securities purchased	1,021,706	-	-	-	1,021,706
Obligation under securities loan agreements	2,289,996	827,031	50,519	145,654	3,313,200
Total Liabilities	5,139,727	827,031	50,519	145,654	6,162,931
<b>NET ASSETS</b>					
Held in Trust for Pension Benefits	\$ 21,431,099	\$ 4,309,735	\$ 295,932	\$ 719,235	\$ 26,756,001

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
PENSION TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
<b>ADDITIONS:</b>					
Member contributions	\$ 413,462	\$ 71,874	\$ 3,990	\$ 32,163	\$ 521,489
Employer contributions	413,458	79,000	3,363	14,555	510,376
Member purchase of service credit	112,038	-	-	-	112,038
Court fees	-	-	3,614	-	3,614
Investment income:					
Net increase in fair value of					
investments	2,811,047	457,065	31,898	73,959	3,373,969
Interest income	239,355	75,719	5,291	12,459	332,824
Dividends	190,865	28,884	2,016	4,720	226,485
Real estate	6,958	38	-	-	6,996
Other investment income	3,826	-	-	-	3,826
Securities lending income	28,670	1,458	110	254	30,492
Total investment income	<u>3,280,721</u>	<u>563,164</u>	<u>39,315</u>	<u>91,392</u>	<u>3,974,592</u>
Less investment expenses:					
Investment activity expenses	29,885	551	36	92	30,564
Security lending expenses	22,051	-	-	-	22,051
Net investment income	<u>3,228,785</u>	<u>562,613</u>	<u>39,279</u>	<u>91,300</u>	<u>3,921,977</u>
Other additions	<u>1,906</u>	<u>1,282</u>	<u>160</u>	<u>635</u>	<u>3,983</u>
Total Additions	<u>4,169,649</u>	<u>714,769</u>	<u>50,406</u>	<u>138,653</u>	<u>5,073,477</u>
<b>DEDUCTIONS:</b>					
Retirement and disability benefits	1,381,622	229,885	23,754	26,624	1,661,885
Death benefits	14,859	-	-	-	14,859
Refunds to withdrawing members,					
including interest	36,212	6,391	118	14,053	56,774
Administrative expense	26,834	1,100	89	541	28,564
Other deductions	8,911	196	124	1,139	10,370
Total Deductions	<u>1,468,438</u>	<u>237,572</u>	<u>24,085</u>	<u>42,357</u>	<u>1,772,452</u>
Change in net assets held in trust for					
pension benefits	2,701,211	477,197	26,321	96,296	3,301,025
Net Assets - Beginning	<u>18,729,888</u>	<u>3,832,538</u>	<u>269,611</u>	<u>622,939</u>	<u>23,454,976</u>
Net Assets - Ending	<u>\$ 21,431,099</u>	<u>\$ 4,309,735</u>	<u>\$ 295,932</u>	<u>\$ 719,235</u>	<u>\$ 26,756,001</u>





## INVESTMENT TRUST FUNDS

*Investment Trust Funds account for assets held by the State in a trustee capacity for local governments and political subdivisions, of the State of Arizona, which have elected to invest idle cash with the State Treasurer's Office. The Treasurer acts as trustee for the deposits made by participants.*

**Central Arizona Water Conservation District** is an Investment Trust Account composed of corporate debt and United States Government securities. The Central Arizona Water Conservation District is the only participant in the account.

**Local Government Investment Pool** is an Investment Trust Account composed of corporate debt, negotiable certificates of deposit and United States Government securities.

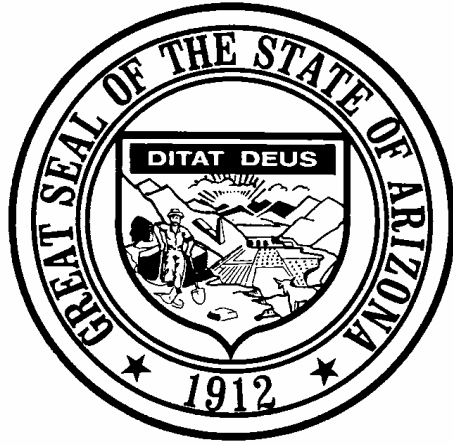
**Local Government Investment Pool-Government** is an Investment Trust Account composed of repurchase agreements and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.

STATE OF ARIZONA  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS**  
INVESTMENT TRUST FUNDS  
JUNE 30, 2004  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL- GOVERNMENT	TOTAL
<b>ASSETS</b>				
Receivables, net of allowances:				
Accrued interest and dividends	\$ 901	\$ 2,503	\$ 548	\$ 3,952
Total receivables	901	2,503	548	3,952
Investments, at fair value:				
U.S. Government securities	116,743	490,807	359,880	967,430
Corporate bonds	11,897	1,047,772	-	1,059,669
Repurchase agreements	-	-	801,024	801,024
Money market	20,077	-	-	20,077
Total investments	148,717	1,538,579	1,160,904	2,848,200
Total Assets	149,618	1,541,082	1,161,452	2,852,152
<b>LIABILITIES</b>				
Due to local governments	1,747	2,044	1,062	4,853
Total Liabilities	1,747	2,044	1,062	4,853
<b>NET ASSETS</b>				
Held in trust for pool participants	\$ 147,871	\$ 1,539,038	\$ 1,160,390	\$ 2,847,299
Net assets consist of:				
Participant shares outstanding	147,871	1,539,038	1,160,390	2,847,299
Participants' net asset value (net assets/shares outstanding)	\$ 1.00	\$ 1.00	\$ 1.00	

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
INVESTMENT TRUST FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL-	TOTAL
<b>ADDITIONS:</b>				
Investment income:				
Net (decrease) in fair value of investments	\$ (2,745)	\$ (5,887)	\$ (2,424)	\$ (11,056)
Interest income	4,142	22,359	14,533	41,034
Total investment income	1,397	16,472	12,109	29,978
Less: Investment activity expenses	121	1,185	1,082	2,388
Net investment income	1,276	15,287	11,027	27,590
Capital share and individual account transactions:				
Shares sold	2,108	2,649,112	1,655,851	4,307,071
Reinvested interest income	3,322	21,795	15,754	40,871
Shares redeemed	(14,353)	(2,606,436)	(2,120,150)	(4,740,939)
Net capital share and individual account transactions	(8,923)	64,471	(448,545)	(392,997)
Total Additions	(7,647)	79,758	(437,518)	(365,407)
<b>DEDUCTIONS:</b>				
Dividends to investors	1,276	15,287	11,027	27,590
Total Deductions	1,276	15,287	11,027	27,590
Change in net assets held in trust for pool participants	(8,923)	64,471	(448,545)	(392,997)
Net Assets - Beginning, as restated	156,794	1,474,567	1,608,935	3,240,296
Net Assets - Ending	\$ 147,871	\$ 1,539,038	\$ 1,160,390	\$ 2,847,299



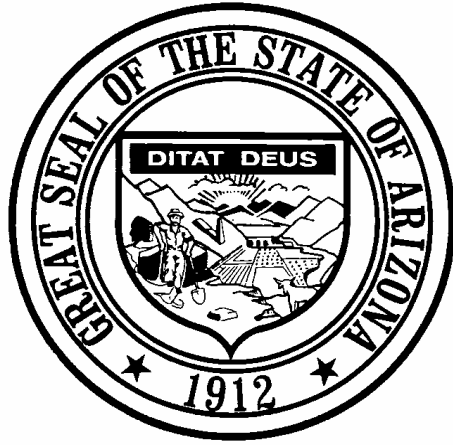
## AGENCY FUNDS

*Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, and 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 made with the State Treasurer for investment purposes.

**The Other Funds** consists 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, 2004  
 (Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES FUND	OTHER TREASURER FUNDS	OTHER FUNDS	TOTAL
<b>ASSETS</b>				
Cash	\$ -	\$ -	\$ 35,661	\$ 35,661
Cash and pooled investments with State Treasurer	-	24,696	157,488	182,184
Short-term investments	-	-	2,127	2,127
Receivables, net of allowances:				
Interest	-	29	84	113
Other	-	-	1,064	1,064
Due from others	-	-	89,446	89,446
Custodial securities in safekeeping	2,497,736	-	60,214	2,557,950
Other assets	-	-	2,089	2,089
<b>Total Assets</b>	<b>\$ 2,497,736</b>	<b>\$ 24,725</b>	<b>\$ 348,173</b>	<b>\$ 2,870,634</b>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	\$ -	\$ -	\$ 122,417	\$ 122,417
Accrued liabilities	-	-	7,412	7,412
Due to local governments	-	11,412	831	12,243
Due to others	2,497,736	13,313	217,513	2,728,562
<b>Total Liabilities</b>	<b>\$ 2,497,736</b>	<b>\$ 24,725</b>	<b>\$ 348,173</b>	<b>\$ 2,870,634</b>

STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

	BALANCE JULY 1, 2003	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2004
<b>TREASURER CUSTODIAL SECURITIES FUND</b>				
Assets:				
Custodial securities in safekeeping	\$ 2,928,537	\$ 655,851	\$ 1,086,652	\$ 2,497,736
Total Assets	<u>\$ 2,928,537</u>	<u>\$ 655,851</u>	<u>\$ 1,086,652</u>	<u>\$ 2,497,736</u>
Liabilities:				
Due to others	\$ 2,928,537	\$ 38,427	\$ 469,228	\$ 2,497,736
Total Liabilities	<u>\$ 2,928,537</u>	<u>\$ 38,427</u>	<u>\$ 469,228</u>	<u>\$ 2,497,736</u>
<b>OTHER TREASURER FUNDS</b>				
Assets:				
Cash and pooled investments with State Treasurer	\$ 18,629	\$ 290,600	\$ 284,533	\$ 24,696
Interest receivable	53	29	53	29
Total Assets	<u>\$ 18,682</u>	<u>\$ 290,629</u>	<u>\$ 284,586</u>	<u>\$ 24,725</u>
Liabilities:				
Accounts payable and other current liabilities	\$ 372	\$ 63,845	\$ 64,217	\$ -
Due to local governments	2,049	206,529	197,166	11,412
Due to others	16,261	35,508	38,456	13,313
Total Liabilities	<u>\$ 18,682</u>	<u>\$ 305,882</u>	<u>\$ 299,839</u>	<u>\$ 24,725</u>

(Continued)

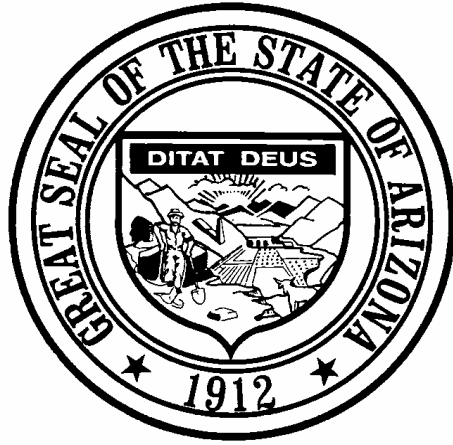


STATE OF ARIZONA  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

	BALANCE		BALANCE	
	JULY 1, 2003	ADDITIONS	DELETIONS	JUNE 30, 2004
<b>OTHER FUNDS</b>				
Assets:				
Cash	\$ 28,948	\$ 35,661	\$ 28,948	\$ 35,661
Cash and pooled investments with State Treasurer	142,113	4,170,518	4,155,143	157,488
Short-term investments	2,978	2,127	2,978	2,127
Receivables, net of allowances:				
Interest	87	84	87	84
Other	764	1,064	764	1,064
Due from others	89,170	89,446	89,170	89,446
Custodial securities in safekeeping	37,538	63,730	41,054	60,214
Other assets	2,295	2,089	2,295	2,089
<b>Total Assets</b>	<b>\$ 303,893</b>	<b>\$ 4,364,719</b>	<b>\$ 4,320,439</b>	<b>\$ 348,173</b>
Liabilities:				
Accounts payable and other current liabilities	\$ 111,343	\$ 5,844,736	\$ 5,833,662	\$ 122,417
Accrued liabilities	6,123	7,412	6,123	7,412
Due to local governments	1,224	2,021	2,414	831
Due to others	185,203	285,607	253,297	217,513
<b>Total Liabilities</b>	<b>\$ 303,893</b>	<b>\$ 6,139,776</b>	<b>\$ 6,095,496</b>	<b>\$ 348,173</b>

**COMBINED TOTAL ALL AGENCY FUNDS**

Assets:				
Cash	\$ 28,948	\$ 35,661	\$ 28,948	\$ 35,661
Cash and pooled investments with State Treasurer	160,742	4,461,118	4,439,676	182,184
Short-term investments	2,978	2,127	2,978	2,127
Receivables, net of allowances:				
Interest	140	113	140	113
Other	764	1,064	764	1,064
Due from others	89,170	89,446	89,170	89,446
Custodial securities in safekeeping	2,966,075	719,581	1,127,706	2,557,950
Other assets	2,295	2,089	2,295	2,089
<b>Total Assets</b>	<b>\$ 3,251,112</b>	<b>\$ 5,311,199</b>	<b>\$ 5,691,677</b>	<b>\$ 2,870,634</b>
Liabilities:				
Accounts payable and other current liabilities	\$ 111,715	\$ 5,908,581	\$ 5,897,879	\$ 122,417
Accrued liabilities	6,123	7,412	6,123	7,412
Due to local governments	3,273	208,550	199,580	12,243
Due to others	3,130,001	359,542	760,981	2,728,562
<b>Total Liabilities</b>	<b>\$ 3,251,112</b>	<b>\$ 6,484,085</b>	<b>\$ 6,864,563</b>	<b>\$ 2,870,634</b>



**BUDGETARY  
COMPARISON  
SCHEDULE,  
EXPENDITURES**

**OTHER GOVERNMENTAL FUNDS**

**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES  
OTHER GOVERNMENTAL FUNDS**

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

OTHER GOVERNMENTAL FUNDS	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>Accountancy Board</b>		
Administrative Adjustments	\$ 8,198	\$ 8,198
Operating Lump Sum Appropriation	2,122,200	1,650,511
<b>Department of Administration</b>		
Administrative Adjustments	3,732	3,732
Administrative Adjustments	34,042	34,042
ASPC - Perryville Security Improvements	11,947	0
Building Renewal Miners' Hospital Fund FY02 - 03	165,419	126,763
Building Renewal Pioneers' Home FY01 - 02	5,600	5,600
Department of Corrections Building Renewal	237,963	230,827
Department of Corrections Fort Grant Landfill Closure	275,570	232,446
Department of Corrections Safety Improvements	1,206,463	1,084,353
Department of Juvenile Corrections Building Renewal	463	0
Department of Juvenile Corrections Medical Center	0	2
Employee Bus Subsidy	475,400	475,400
Florence - 400 Modular and Tent Beds FY96 - 97	90	0
General Fund Transfer 1st Regular Session Chapter 262	3,000,000	3,000,000
New Prison Complex	3,207	(257,490)
New Prison Complex	0	31
Operating Lump Sum Appropriation	628,100	614,850
Pioneer Home Fire and Life Safety	52,584	52,584
Pioneers' Home Plumbing Renovations	500,000	140,422
Pioneers' Home Plumbing Renovations	23,505	14,586
Prison Planning and Sitting	0	(1,426)
Southwest Regional Prison Complex FY96 -97	203	203
Southwest Regional Prison Complex FY97 - 98	101,946	101,946
Southwest Regional Prison Complex FY98 - 99	1,063,224	1,063,224
Statewide Prison Maintenance FY93 - 94	0	0
Yuma Complex - 800 Male Beds FY95 - 96	0	1,797
<b>Radiation Regulatory Agency</b>		
Administrative Adjustments	273	273
MRTB Assistant	11,375	0
Operating Lump Sum Appropriation	239,900	206,752
<b>Attorney General</b>		
Administrative Adjustments	2,478	2,478
Administrative Adjustments	174	174
Administrative Adjustments	3,355	3,355
Operating Lump Sum Appropriation	1,855,500	1,426,906
Operating Lump Sum Appropriation	402,000	342,917
Operating Lump Sum Appropriation FY01 - 02	0	0
Operating Lump Sum Appropriation FY03 - 04	3,769,500	3,315,226
Victims' Rights Implementation Fund	3,185,000	2,716,375
Victims' Rights/Non Revert - HB 2427	479,145	175,375
<b>Department of Agriculture</b>		
Administrative Adjustments	16	16
Administrative Adjustments	9,275	9,275
Administrative Adjustments	55	55
Administrative Adjustments	10,121	10,121
Administrative Adjustments	16	16
Administrative Adjustments	8,239	8,239
Administrative Adjustments	396	396
Operating Lump Sum Appropriation	63,700	49,935
Operating Lump Sum Appropriation	205,400	204,926
Operating Lump Sum Appropriation	488,200	454,731

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	240,000	239,189
Operating Lump Sum Appropriation	21,400	0
Operating Lump Sum Appropriation	50,900	31,452
Operating Lump Sum Appropriation	79,400	31,488
Operating Lump Sum Appropriation	257,700	257,566
Operating Lump Sum Appropriation	1,008,000	779,101
Operating Lump Sum Appropriation	9,200	5,043
Operating Lump Sum Appropriation	249,600	139,900
Ratite General Fund FY98 - 99	71,786	0
Wine Promotion	54,858	0
<b>Acupuncture Board of Examiners</b>		
Operating Lump Sum Appropriation	75,300	51,746
<b>Appraisal Board</b>		
Administrative Adjustments	3,836	3,836
Operating Lump Sum Appropriation	483,000	445,484
Payment Of FY2001-2002 Expenses	1,100	1,022
<b>Automobile Theft Authority</b>		
Auto Theft Authority Grants	3,499,500	3,497,215
Operating Lump Sum Appropriation	538,700	519,279
<b>Barber Examiners Board</b>		
Administrative Adjustments	1,086	1,086
Operating Lump Sum Appropriation	221,400	203,462
<b>Board of Behavioral Health Examiners</b>		
Operating Lump Sum Appropriation	816,100	785,829
<b>Board of Nursing</b>		
Administrative Adjustments	143	143
Operating Lump Sum Appropriation	3,403,200	3,256,879
<b>Cosmetology Board</b>		
Operating Lump Sum Appropriation	1,538,900	1,415,363
<b>Corporation Commission</b>		
Administrative Adjustments	2,599	2,599
Administrative Adjustments	3,431	3,431
Administrative Adjustments	1,000	1,000
Annual Reversion per ARS 10-122	789,090	789,090
Annual Reversion per ARS 44-3298	783,102	783,102
Investigation and Prosecution of Security Fraud	165,599	0
Operating Lump Sum Appropriation	3,424,000	2,978,197
Operating Lump Sum Appropriation	1,824,500	1,774,932
Operating Lump Sum Appropriation	770,800	768,573
Operating Lump Sum Appropriation	11,050,900	10,914,628
Utility Audits, Studies, Investigations and Rate Hearing FY00 - 01	17,890	0
Utility Audits, Studies, Investigations and Rate Hearing FY00 - 01	249,375	0
Utility Audits, Studies, Investigations and Rate Hearing FY01 - 02	380,000	0
Utility Audits, Studies, Investigations and Rate Hearing FY02 - 03	380,000	0
Utility Audits, Studies, Investigations and Rate Hearing FY03 - 04	380,000	0
<b>Chiropractic Examiners Board</b>		
Operating Lump Sum Appropriation	450,800	393,048
<b>Department of Corrections</b>		
Additional Beds	859,200	859,201
Administrative Adjustments	828,403	828,403
Administrative Adjustments	89	89
Administrative Adjustments	82,071	82,071
Administrative Adjustments	160,518	160,518
Corrections Fd Pseudo Appn	0	0
Drug Treatment Pilot Program	250,000	0

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Navajo & Coconino County Jail Beds	1,700,000	1,683,041
Operating Lump Sum	28,394,700	27,729,820
Operating Lump Sum	449,300	441,375
Operating Lump Sum Appropriation	869,200	379,564
Operating Lump Sum Appropriation	570,000	208,419
Prison Expansion & Additional Beds	2,400,000	1,700,120
Retention Stipends & Recruitment Bonus	5,000,000	5,000,000
State Char Pen/Ret Land Earnings	46,000	15,342
<b>Department of Economic Security</b>		
ADM Oper Lump Sum-Pac Fund	130,000	14,003
ADM Operating Lump Sum Appropriation	0	0
ADM Operating Lump Sum Appropriation	86,900	0
Administrative Adjustments	351,587	351,587
Administrative Adjustments	21,792	21,792
Administrative Adjustments	48,787	48,787
Administrative Adjustments	316,569	316,569
Attorney General Legal Services	86,700	38,296
DACS Community and Emergency Services	500,000	323,535
DACS Domestic Violence Prevention	1,700,000	1,571,000
DCYF Child Abuse Prevention	815,700	809,252
DCYF Children Services - Cap	750,000	0
DCYF Operating Lump Sum Appropriation	209,600	50,719
DEARS Operating Lump Sum - Appropriation	0	0
DERS Independent Living Rehabilitation Services	0	0
DERS Independent Living Rehabilitation Services	1,707,700	973,031
DERS Operating Lump Sum - Appropriation	478,800	430,146
DERS Operating Lump Sum - Special Admin	85,000	7,043
DERS Vocational Rehabilitation Services	0	0
DERS Vocational Rehabilitation Services	204,700	169,130
Jobs	1,500,000	630,000
Operating Lump Sum Appropriation	544,500	(17,319)
Public Assistance Collections	230,100	168,138
<b>Commission for the Deaf and Hard of Hearing</b>		
Administrative Adjustments	293,749	293,749
General Fund Transfer 1st RS Chapter 262	1,000,000	1,000,000
Operating Lump Sum Appropriation	5,190,300	4,859,343
<b>Department of Juvenile Corrections</b>		
Adobe Mountain - Upgrade Fire Booster Pump	0	0
Catalina Mountain Institution - Replace Kitchen Floor	36,085	36,085
Operating Lump Sum	585,300	584,798
Operating Lump Sum Appropriation	360,000	360,000
<b>Dispensing Opticians Board</b>		
Operating Lump Sum Appropriation	113,300	92,976
<b>Board of Dental Examiners</b>		
Administrative Adjustments	144	144
Operating Lump Sum Appropriation	881,700	871,955
<b>Department of Education</b>		
Achievement Testing	2,255,500	2,255,500
Additional School Days	48,727,700	48,727,700
Administrative Adjustments	908,621	908,621
Administrative Adjustments	0	0
Basic State Aid Entitlement	59,761,100	59,761,100
Failing School Tutoring Fund	1,500,000	4,220
School Accountability Fund	4,659,700	1,768,790
School Accountability Fund - Proposition 301 FY03 - 04	7,800,000	5,671,871

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
School Accountability Fund - Proposition 301 School Safety	3,164,277	3,151,112
School Safety - Character Education	200,000	0
<b>Department of Commerce</b>		
Administrative Adjustments	0	0
Administrative Adjustments	207,433	207,433
Advertising and Promotion	659,200	490,357
Arizona Sonora Economic Development Study	10,000	0
CEDC Commission	248,200	240,524
Economic Development Matching Funds	104,000	49,278
International Trade Offices	968,200	843,396
Lottery 1989	5,001	0
Main Street	130,000	107,273
Minority and Women Owned Business	104,500	89,485
National Law Center/Free Trade	200,000	200,000
Oil Overcharge Administration	156,400	115,830
Operating Lump Sum Appropriation	611,800	531,235
REDI Matching Grants	45,000	44,289
Small Business Advocate	103,700	100,254
Williams Gateway Airport Authority	4,000,000	0
<b>Department of Environmental Quality</b>		
Administrative Adjustments	16,116	16,116
Administrative Adjustments	3,068	3,068
Administrative Adjustments	499,496	499,496
Administrative Adjustments	1,073	1,073
Administrative Adjustments	177,702	177,702
Administrative Adjustments	24,849	24,849
Administrative Adjustments	1,432	1,432
Administrative Adjustments	3,985	3,985
Administrative Adjustments	13,544	13,544
Air Permits Administration Program	5,384,700	3,491,625
Air Quality Program	4,496,000	3,318,067
Air Quality Program - Continuing FY01 - 02	225,000	10,948
Air Quality Program - Continuing FY02 - 03	196,989	14,538
Department of Administration Travel Reduction Transfer	400,000	400,000
Emissions Cap & Trading Program FY01 - 03	292,977	26,396
Emissions Cap & Trading Program FY02 - 03	110,010	39,434
Emissions Control - Contractor Payments	31,739,600	27,671,295
Emissions Control Program-Administration	3,953,500	2,354,423
Gen Fund Transfer 1st Regular Session Chapter 262	5,000,000	5,000,000
Gen Fund Transfer 1st Regular Session Chapter 263	11,700,000	11,700,000
Hazardous Waste Program	695,600	276,385
Hazardous Waste Reserve FY94 - 96	29,273	0
Hazardous Waste Reserve FY95 - 96	64,000	0
Pima County Air Quality Program	165,000	165,000
Political Subdivisions Assistance	40,526	22,026
Roadside Diesel Emissions Testing Program FY01 - 02	200,000	0
Roadside Diesel Emissions Testing Program FY02 - 03	200,000	0
Solid Waste Program	2,091,100	1,254,235
Solid Waste Program	1,092,800	482,609
Solid Waste Program	130,900	56,373
UST Assurance Technical Appeals Panel FY00 - 01	7,500	0
UST Assurance Acct - Policy Comm	22,000	5,812
UST Assurance Acct - Policy Comm FY00 - 01	274	272
UST Assurance Acct - Policy Comm FY99 - 00	18,857	0
Visibility Index Development FY01 - 03	272,563	151,439

(Continued)



STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Visibility Index Development FY02 - 03	80,589	0
Waste Tire Program	202,000	37,984
Water Quality Program	3,736,900	1,970,031
<b>Funeral Directors and Embalmers</b>		
Administrative Adjustments	533	533
Operating Lump Sum Appropriation	279,100	269,436
<b>Game and Fish Department</b>		
Administrative Adjustments	82,403	82,403
Administrative Adjustments	4,450	4,450
Building Renewal FY00 - 01	13,800	13,800
Building Renewal FY02 - 03	232,317	187,432
Building Renewal FY03 - 04	323,300	25,723
Building Renewal FY01 - 02	11,810	11,809
Canyon Creek Hatchery Improvement	360,000	4,514
Exp and Renov Gf Hdqtrs	212,333	0
Facility Improvements FY00 - 01	2,453	0
Facility Improvements FY01 - 02	135,700	64,142
Facility Improvements FY02 - 03	146,600	618
Facility Improvements FY99 - 00	6,690	6,689
Flagstaff Shooting Range Development FY00 - 01	74,000	142
Flagstaff Shooting Range Development FY99 - 00	15,340	3,756
Flagstaff Shooting Range Planning FY02 - 03	500,000	100
Flagstaff Shooting Range Planning FY02 - 04	461,092	381
General Fund Transfer 1st Regular 1 Session Chapter 262	1,000,000	1,000,000
Headquarters Expansion and Renovation FY01 - 02	500,000	0
Headquarters Expansion and Renovation FY02 - 03	800,000	0
Headquarters Security System	200,000	13,280
Lake Havasu Shooting Range Development	300,000	55
Migration Waterfowl Development FY98 - 99	89,311	82,831
Migration Waterfowl Habitat FY96 - 97	3	3
Migratory Waterfowl Development	100,000	2,514
Migratory Waterfowl Development FY00 - 01	100,000	975
Migratory Waterfowl Development FY01 - 02	100,000	0
Migratory Waterfowl Development FY02 - 03	100,000	12,622
Migratory Waterfowl Development FY99 - 00	100,000	23,100
Migratory Waterfowl Development FY97 - 98	59,605	59,605
Migratory Waterfowl Habitat FY93 - 94	1,302	0
Operating Lump Sum Appropriation	20,074,300	16,870,982
Operating Lump Sum Appropriation	2,094,000	1,915,367
Operating Lump Sum Appropriation	293,400	238,850
Operating Lump Sum Appropriation	43,400	21,001
Operating Lump Sum Appropriation	16,000	8,404
Performance Based Incentives Program	322	0
Performance Based Incentives Program FY00 - 01	13	0
Performance Based Incentives Program FY03 - 04	300,000	300,000
Performance Based Incentives Program FY97 -98	6,571	0
Performance Incentive Pay Program	46,800	45,724
Pinetop Warehouse and Paving	310,000	5,498
Pittman-Robertson/Dingell-Johnson Act	2,808,000	2,808,000
Shooting Range Dev/Grants Program	100,000	19,363
Shooting Range Development FY00 - 01	30,938	30,938
Shooting Range Development FY01 - 02	42,122	2,564
Shooting Range Development FY02 - 03	100,000	86,217
Shooting Range Development FY98 - 99	4,270	4,270

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Shooting Range Development FY99 - 00	2,058	0
W.C. Performance Based Incentives Program	2	0
<b>Department of Gaming</b>		
Administrative Adjustments	8,528	8,528
Joint Monitoring System	1,291,500	0
Operating Lump Sum Appropriation	1,528,600	1,512,701
Operating Lump Sum Gaming Admn & Reg Expen	7,148,800	5,407,747
Prevention & Treatment Problem Gambling	951,100	406,116
<b>Arizona Health Care Cost Containment System</b>		
Administrative Adjustments	59,895	59,895
Capitation	59,445,900	59,445,900
Children's Health Insurance Program - Administrations	4,723,700	4,505,571
Children's Health Insurance Program - Parents	27,939,600	22,978,437
Children's Health Insurance Program - Services	54,210,600	54,210,600
Kids Care Federal Rev and Exp	0	(11)
Prop 204 Services	20,541,100	17,318,849
Prop 204 Services	22,806,151	22,806,151
Trauma Centers	5,000,000	5,000,000
<b>Department of Housing</b>		
Operating Lump Sum Appropriation	432,200	432,200
<b>Homeopathic Medical Examiners</b>		
Operating Lump Sum Appropriation	74,800	62,115
<b>Department of Health Services</b>		
Public Health - Laboratory Services	822,800	640,096
Administrative Adjustments	462,500	462,500
Administrative Adjustments	181,242	181,242
Administrative Adjustments	48,779	29,582
Administrative Adjustments	11,560	11,560
Administrative Adjustments	10,920	10,920
Administrative Adjustments	0	0
Alzheimer Disease Research	1,000,000	1,000,000
Alzheimer's Grants	0	0
Assurance and Licensure	38,000	2,510
Attorney General Legal Services	30,000	30,000
Central Medical Direction - EMS	100,000	0
Child Fatality Review Team	100,000	85,278
Emergency Medical Services	3,051,100	2,509,950
Hepatitis C Virus Surveillance	0	0
High Risk Prenatal Services	450,000	252,139
Immunization Information System	0	0
Loan Repayment Services	100,000	67,745
Mental Health Research Institute Grant	1,845,068	360,750
Newborn Screening Fund - Indirect Costs	478,600	340,261
Newborn Screening Program	3,239,800	2,867,964
Operating Lump Sum	29,800	12,700
Operating Lump Sum Appropriation	650,000	576,639
Poison Control Center Funding	800,000	600,000
Rural Emergency Medial Services	0	0
Rural Medical Services	73,091	1,713
Seriously Mentally Ill Non-Title XIX	1,200,000	0
Seriously Mentally Ill St Mch For T-XIX	28,224,800	28,224,800
Substance Abuse - Non Title XIX	2,500,000	2,500,000
Trauma Advisory Board	250,000	122,857
University of Arizona Poison Center	1,050,000	787,500

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>Industrial Commission</b>		
Administrative Adjustments	92,079	92,079
General Fund Transfer 1st Regular 1 Session Chapter 262	2,000,000	2,000,000
Operating Lump Sum Appropriation	16,498,800	15,157,710
<b>Criminal Justice Commission</b>		
Crime Victim Compensation Special AG Transfer FY00 - 01	26,746	18,544
Drug and Gang Prevention Resource Center	262,000	262,000
Operating Lump Sum Appropriation	561,300	531,682
Operating Lump Sum Appropriation	3,900,000	3,832,746
Rural State Aid to County Attorneys	706,500	706,500
Rural State Aid to Indigent Defense	670,800	670,800
<b>Land Department</b>		
Natural Resource Conservation Districts	490,000	488,500
<b>Department of Emergency and Military Affairs</b>		
Operating Lump Sum Appropriation	132,700	132,700
<b>Medical Examiners Board</b>		
Administrative Adjustments	3,070	3,070
Operating Lump Sum Appropriation	4,752,200	4,424,777
Performance Based Incentive Program	183,334	121,481
<b>Medical Student Loans Board</b>		
Medical Student Loans	283,400	283,400
<b>Board of Massage Therapy</b>		
Operating Lump Sum Appropriation	75,000	65,053
<b>Naturopathic Board</b>		
Inspections and Evaluation	19,600	19,600
Operating Lump Sum Appropriation	213,100	210,829
<b>Nursing Care Examiners Board</b>		
Administrative Adjustments	3,119	3,119
Operating Lump Sum Appropriation	361,700	348,031
<b>Optometry Board</b>		
Administrative Adjustments	1,590	1,590
Operating Lump Sum Appropriated	176,200	169,150
<b>Osteopathic Examiners Board</b>		
Administrative Adjustments	215	215
Operating Lump Sum Appropriation	466,900	422,078
<b>Occupational Therapy Examiners Board</b>		
Administrative Adjustments	413	413
Operating Lump Sum Appropriation	213,700	181,627
<b>Commission for Postsecondary Education</b>		
Arizona College and Career Guide	21,200	15,549
Arizona Minority Education Policy Analysis Center	150,000	27,112
Family College Savings Program	26,900	26,900
Leveraging Educational Assistance Partnership	2,143,700	1,644,137
Operating Lump Sum Appropriation	335,700	335,691
Twelve Plus Partnership	119,600	67,673
<b>Pioneer's Home</b>		
Administrative Adjustments	845	845
Administrative Adjustments	1,763	1,763
Building Renewal FY01 - 02	2,910	2,910
Building Renewal FY02 - 03	0	0
Operating Lump Sum Appropriation	278,500	207,894
Operating Lump Sum Appropriation	1,121,500	1,012,323
Prescription Drugs	436,400	343,179

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>Pharmacy Board</b>		
Administrative Adjustments	3,703	3,703
Operating Lump Sum Appropriation	1,347,700	1,259,648
<b>Podiatry Examiners Board</b>		
Operating Lump Sum Appropriation	104,600	90,642
<b>Parks Board</b>		
Parks Operations	692,100	551,286
Administrative Adjustments	883	829
FY 89 Pass Through Grants	10,436	0
FY 90 Pass Through Grants	40,191	0
FY 91 Pass Through Grants	2,067,639	0
General Fund Transfer 1st Regular 1 Session Chapter 262	6,800,000	6,800,000
General Fund Transfer 1st Regular Session Chapter 262	2,000,000	2,000,000
Kartchner Caverns State Park	298,700	298,426
Land, Buildings and Improvement Control	4,388	0
Land, Buildings and Improvement Control	258,697	0
Land, Buildings and Improvement Control FY91 - 92	1,500	0
Land, Buildings and Improvement Control FY91 - 92	19,258	0
Land, Buildings and Improvement Control FY91 - 92	32,684	0
Operating Lump Sum Appropriation	1,250,000	1,174,613
<b>Department of Public Safety</b>		
Board of Fingerprinting	268,700	268,700
DNA Testing	1,437,087	0
DNA Testing	2,000,000	1,004,919
Operating Lump Sum Appropriation	30,151,400	30,151,400
Operating Lump Sum Appropriation	16,429,900	16,335,156
Operating Lump Sum Appropriation	1,192,800	1,022,138
Operating Lump Sum Appropriation	4,424,700	3,903,100
Operating Lump Sum Appropriation	2,194,900	2,152,887
Operating Lump Sum Appropriation	525,100	525,100
Operating Lump Sum Appropriation	48,698,000	48,698,000
Operating Lump Sum Appropriation	2,297,200	2,297,200
Patrol Officers - SB1243 Year 2	2,574,215	2,532,645
<b>Physical Therapy Examiners Board</b>		
Operating Lump Sum Appropriation	242,100	230,053
<b>Private Post-Secondary Education</b>		
Administrative Adjustments	6	6
Operating Lump Sum Appropriation	258,600	248,531
<b>Board of Respiratory Care Examiners</b>		
Administrative Adjustments	2,776	2,776
Operating Lump Sum Appropriation	198,600	170,376
<b>Racing Department</b>		
Administrative Adjustments	4,077	4,077
Operating Lump Sum Appropriation	75,500	52,556
Operating Lump Sum Appropriation	362,500	300,306
<b>Registrar of Contractors</b>		
Administrative Adjustments	78,414	78,414
Incentive Pay	113,500	113,500
Office of Administrative Hearing	869,500	869,500
Operating Lump Sum Appropriation	9,041,500	8,544,079
<b>Department of Revenue</b>		
Administrative Adjustments	1,825	1,825
Administrative Adjustments	1,838	1,838
Ladewig v. State Of Arizona - Administrative Costs	4,911,401	3,741,636
Operating Lump Sum Appropriation	1,448,200	1,370,734

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
OTHER GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004  
(Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
Operating Lump Sum Appropriation	385,800	379,291
Operating Lump Sum Appropriation	435,400	428,236
<b>Structural Pest Control Board</b>		
Administrative Adjustments	11,160	11,160
Operating Lump Sum Appropriation	1,875,600	1,874,121
<b>Schools for the Deaf and the Blind</b>		
Administrative Adjustments	0	0
Operating Lump Sum Appropriation - Phoenix	5,070,200	4,657,432
Operating Lump Sum Appropriation - Sw/Admin	1,634,200	1,634,200
Operating Lump Sum Appropriation - Tucson	5,888,300	5,231,673
Operating Lump Sum - Phoenix	222,200	165,229
Operating Lump Sum - Sw/Admin	665,600	495,687
Operating Lump Sum - Tucson	990,600	715,992
<b>School Facilities Board</b>		
Administrative Adjustments	0	0
Building Inspections	400,000	0
<b>Supreme Court</b>		
Administrative Adjustments	13,552	13,303
Administrative Adjustments	1,572	1,572
Administrative Adjustments	366,304	366,304
Case Processing - State Aid	3,031,100	1,667,035
Community Punishment	1,830,400	600,000
Confidential Intermediary FY00 - 01	7,688	7,688
Confidential Intermediary FY01 - 02	183,276	130,463
Confidential Intermediary FY02 - 03	384,095	87,019
Court Appointed Special Advocate	2,652,700	2,458,820
Drug Study	38,514	0
Foster Care Review Board	284,900	282,643
Juvenile Crime Reduction	5,136,100	2,949,497
Model Court	465,100	465,100
Operating Lump Sum Appropriation	428,300	10,746
Private Fiduciary	88,146	88,146
State Aid to the Courts	1,840,100	1,800,108
<b>Psychologist Examiners Board</b>		
Administrative Adjustments	156	156
Operating Lump Sum Appropriation	319,900	268,197
<b>Technical Registration Board</b>		
Administrative Adjustments	9,748	9,748
Operating Lump Sum Appropriation	1,333,700	1,276,152
<b>Residential Utilities Consumer Office</b>		
Administrative Adjustments	460	460
Operating Lump Sum Appropriation	1,000,700	968,567
Professional Witnesses FY00 - 01	22,508	20,238
Professional Witnesses FY01 - 02	98,886	35,889
Professional Witnesses FY02 - 03	61,948	44,901
Professional Witnesses FY03 - 04	145,000	44,306
Professional Witnesses FY97 - 98	10,604	0
Professional Witnesses FY98 - 99	11,977	0
Professional Witnesses FY99 - 00	49,324	0
<b>Veterans' Services Department</b>		
Lump Sum Appropriation	565,200	561,166
<b>Veterinary Medical Examiners Board</b>		
Administrative Adjustments	625	625
Operating Lump Sum Appropriation	391,100	366,238

(Continued)

STATE OF ARIZONA  
**BUDGETARY COMPARISON SCHEDULE, EXPENDITURES**  
 OTHER GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2004  
 (Expressed in Dollars)

	FINAL BUDGET (Appropriations)	ACTUAL EXPENDITURE AMOUNTS
<b>Water Resources Department</b>		
General Fund Transfer 1st Regular Session Chapter 262	9,000,000	9,000,000
<b>Weights and Measures Department</b>		
Administrative Adjustments	9,695	9,695
Operating Lump Sum Appropriation	1,228,000	1,153,986
<b>Total Other Governmental Funds Budgetary Expenditures</b>	<u>\$ 839,166,530</u>	<u>\$ 756,112,626</u>

# STATISTICAL SECTION

(Not Covered by the Independent Auditors' Report)





STATE OF ARIZONA  
**REVENUES BY SOURCE**  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

SOURCE	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Taxes:										
Sales	\$4,985,424	\$4,555,389	\$4,424,528	\$4,019,574	\$3,854,075	\$3,508,327	\$3,210,019	\$3,060,258	\$2,868,455	\$2,681,756
Income	2,818,778	2,387,369	2,410,342	2,879,011	2,820,067	2,648,271	2,460,630	2,289,563	1,933,554	1,904,250
Motor vehicle and fuel	1,613,952	1,563,876	1,493,259	1,332,917	1,360,117	1,412,052	1,332,059	1,287,636	1,196,683	972,276
Property	50,455	37,470	49,611	47,987	50,490	52,785	55,354	51,185	198,035	193,625
Tobacco	223,804	-	-	-	-	-	-	-	-	-
Unemployment	-	-	-	175,733	177,607	191,327	223,517	225,102	239,481	235,800
Other	539,218	632,896	543,055	508,499	491,379	493,760	443,999	487,921	445,526	390,564
Intergovernmental	7,159,976	6,141,218	5,182,770	4,421,940	3,987,414	3,758,126	3,362,720	3,444,011	3,211,114	3,087,353
Licenses, fees and permits	349,938	320,564	327,006	221,063	204,976	189,657	175,335	194,410	173,311	159,890
Earnings on investments	131,715	111,771	136,513	266,400	232,849	205,875	217,620	179,276	152,795	118,767
Sales and charges for services	161,170	111,438	140,568	78,684	58,203	47,910	56,662	28,111	24,096	13,105
Fines, forfeitures and penalties	120,032	96,192	98,349	87,620	80,466	80,210	63,425	57,000	56,702	59,271
Gaming	57,517	-	-	-	-	-	-	-	-	-
Tobacco Settlement	92,550	-	-	-	-	-	-	-	-	-
Other	313,220	337,930	320,870	397,017	323,888	191,446	169,685	215,337	205,691	165,231
<b>Total Revenues</b>	<b>\$18,617,749</b>	<b>\$16,296,113</b>	<b>\$15,126,871</b>	<b>\$14,436,445</b>	<b>\$13,641,531</b>	<b>\$12,779,746</b>	<b>\$11,771,025</b>	<b>\$11,519,810</b>	<b>\$10,705,443</b>	<b>\$9,981,888</b>

STATE OF ARIZONA  
**EXPENDITURES BY FUNCTION**  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

FUNCTION	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
General government	\$718,229	\$689,603	\$486,154	\$1,970,048	\$1,762,922	\$1,605,452	\$1,445,878	\$1,336,854	\$1,277,101	\$1,189,562
Health and welfare	7,733,516	6,652,661	5,788,774	5,131,426	4,556,141	4,304,739	4,005,762	4,057,734	3,790,039	3,644,541
Inspection and regulation	136,189	139,863	129,226	119,643	117,034	109,154	102,032	98,445	95,675	91,954
Education	4,702,609	4,882,516	4,188,501	3,473,005	3,188,645	2,829,105	2,591,121	2,400,212	2,220,246	2,033,675
Protection and safety	1,028,134	925,667	892,986	855,421	845,645	777,636	687,696	627,322	571,325	533,166
Transportation	717,463	463,756	401,372	1,829,350	1,811,957	1,748,482	1,499,551	1,307,624	1,287,309	1,008,472
Natural resources	153,533	163,946	140,600	116,732	100,718	94,399	97,377	90,417	87,252	81,629
Intergovernmental revenue sharing	2,144,438	2,159,691	2,190,160	-	-	-	-	-	-	-
Capital outlay	695,289	1,041,038	1,127,716	339,421	302,790	320,621	237,698	250,144	253,753	192,337
Debt service:										
Principal	327,595	297,508	270,850	227,408	192,563	180,157	167,590	168,815	151,652	118,869
Interest and other fiscal charges	188,247	140,613	125,594	91,364	91,222	89,323	89,272	99,150	103,562	107,750
<b>Total Expenditures</b>	<b>\$18,545,242</b>	<b>\$17,556,862</b>	<b>\$15,741,933</b>	<b>\$14,153,818</b>	<b>\$12,969,637</b>	<b>\$12,059,068</b>	<b>\$10,923,977</b>	<b>\$10,436,717</b>	<b>\$9,837,914</b>	<b>\$9,001,955</b>

**Note:** The State implemented GASB Statement No. 34-Basic Financial Statements and Management Discussion and Analysis in fiscal year 2002. This statement required fund reclassifications in the governmental fund types for fiscal year 2002 and after.

STATE OF ARIZONA  
**PROPERTY TAX LEVIES, COLLECTIONS, TAXABLE  
PROPERTY ASSESSED AND ESTIMATED ACTUAL VALUE**  
FOR THE LAST TEN PROPERTY TAX YEARS  
FISCAL YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

Property Tax Year	Property Tax Levies	Collections Related to Property Tax Year	Taxable Property Assessed Value	(1)		Percent of Assessed to Actual Value
				Taxable Property Estimated Actual Value	Actual Value	
2004	\$ 12,400	\$ 12,400	\$ 41,874,701	\$ 341,712,184		12.25 %
2003	13,629	13,629	38,294,937	309,396,454		12.38
2002	13,802	13,802	34,854,286	277,595,500		12.56
2001	17,905	17,905	32,528,311	256,712,786		12.67
2000	22,532	22,532	29,944,135	234,908,258		12.75
1999	24,059	24,059	27,483,100	216,336,711		12.70
1998	27,129	27,129	25,682,910	202,817,004		12.66
1997	28,650	28,650	24,277,784	189,751,599		12.79
1996	32,759	28,828	22,811,159	176,486,243		12.93
1995	174,706	169,992	22,109,869	169,499,669		13.04

Source: Department of Revenue Annual Financial Report

(1) 1995 - 2003 taxable property estimated actual value amounts revised to reflect limited (primary) values.

STATE OF ARIZONA  
**HIGHWAY CONSTRUCTION REVENUE BOND COVERAGE**  
FOR THE LAST TEN FISCAL YEARS  
FISCAL YEAR ENDED JUNE 30, 2004  
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total	(1)	
				Pledged Revenue	Coverage
2004	\$ 51,155	\$ 53,149	\$ 104,304	\$ 557,854	5.3
2003	44,490	41,932	86,422	540,540	6.3
2002	45,365	38,534	83,899	523,326	6.2
2001	52,055	36,581	88,636	513,890	5.8
2000	46,270	33,994	80,264	528,721	6.6
1999	43,805	31,090	74,895	509,935	6.8
1998	43,405	33,266	76,671	468,240	6.1
1997	40,970	36,148	77,118	468,542	6.1
1996	38,430	38,770	77,200	429,825	5.6
1995	36,330	40,974	77,304	399,605	5.2

(1) For fiscal year 1995 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Source: The Arizona Department of Transportation Comprehensive Annual Financial Report statistical section.

STATE OF ARIZONA  
**MARICOPA COUNTY ROAD CONSTRUCTION REVENUE BOND COVERAGE**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

Fiscal Year	(1)					Coverage
	Principal	Interest	Total	Pledged Revenue		
2004	\$ 199,400	\$ 23,553	\$ 222,953	\$ 288,600		1.3
2003	190,415	31,533	221,948	268,721		1.2
2002	163,455	35,445	198,900	267,563		1.3
2001	156,865	40,035	196,900	264,722		1.3
2000	128,805	42,609	171,414	248,596		1.5
1999	106,765	43,251	150,016	229,470		1.5
1998	82,765	40,512	123,277	209,263		1.7
1997	78,015	45,248	123,263	192,257		1.6
1996	76,955	46,209	123,164	178,413		1.4
1995	57,930	47,320	105,250	160,319		1.5

(1) Bond coverage ratio is based upon total Transportation Excise Taxes collected within Maricopa County.

Source: The Arizona Department of Transportation Comprehensive Annual Financial Report statistical section.

STATE OF ARIZONA  
**ARIZONA STATE UNIVERSITY REVENUE BOND COVERAGE**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

Fiscal Year	(1) Debt Service Requirements					Coverage
	Gross Revenues	Principal	Interest	Total		
2004	\$ 325,626	\$ -	\$ 13,754	\$ 13,754		23.68
2003	297,691	9,695	9,575	19,270		15.45
2002	274,596	9,785	12,139	21,924		12.52
2001	261,328	8,995	11,766	20,761		12.59
2000	242,764	9,640	12,245	21,885		11.09
1999	233,404	9,205	12,685	21,890		10.66
1998	210,397	8,780	13,113	21,893		9.61
1997	196,143	8,330	13,563	21,893		8.96
1996	183,167	7,750	14,144	21,894		8.37
1995	165,736	7,085	14,807	21,892		7.57

(1) "Gross Revenues" consist of pledged revenues for the bond issued.

Source: Arizona State University

STATE OF ARIZONA  
**NORTHERN ARIZONA UNIVERSITY REVENUE BOND COVERAGE**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	Debt Service Requirements				Coverage
		Principal	Interest	Total		
2004	\$ 103,192	\$ 10,294	\$ 5,778	\$ 16,072	6.42	
2003	85,294	9,426	5,066	14,492	5.89	
2002	82,839	6,932	3,949	10,881	7.61	
2001	78,907	6,214	5,246	11,460	6.89	
2000	75,852	6,119	5,488	11,607	6.54	
1999	73,467	6,075	5,810	11,885	6.18	
1998	71,743	5,743	6,145	11,888	6.03	
1997	70,036	5,677	4,859	10,536	6.65	
1996	68,336	5,372	5,207	10,579	6.46	
1995	61,526	4,675	5,525	10,200	6.03	

(1) "Gross Revenues" includes only revenues that are pledged for debt service payments under the System Revenue Bond Indenture.

Source: Northern Arizona University

STATE OF ARIZONA  
**UNIVERSITY OF ARIZONA REVENUE BOND COVERAGE**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Thousands)

Fiscal Year	(1), (2) Gross Revenues	(1), (2) Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements				Coverage
				Principal	Interest	Total		
2004	\$ 778,939	\$ 727,161	\$ 51,778	\$ 10,970	\$ 11,706	\$ 22,676	2.28	
2003	726,258	667,627	58,631	12,625	12,156	24,781	2.37	
2002	670,326	625,664	44,662	9,946	15,500	25,446	1.76	
2001	710,423	663,284	47,139	12,415	16,359	28,774	1.64	
2000	674,330	625,318	49,012	11,700	13,081	24,781	1.98	
1999	650,201	580,292	69,909	10,714	14,869	25,583	2.73	
1998	605,197	555,733	49,464	9,830	14,463	24,293	2.04	
1997	577,412	535,178	42,234	9,360	14,935	24,295	1.74	
1996	563,623	513,444	50,179	9,491	15,421	24,912	2.01	
1995	537,891	486,926	50,965	8,147	15,334	23,481	2.17	

(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) Fiscal Year 2002 "Gross Revenues" and "Direct Operating Expenses" include accounting changes applied to Scholarship and Allowance due to implementation of GASB 34/35.

Source: University of Arizona

STATE OF ARIZONA  
**ECONOMIC INDICATORS**  
 FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended December 31	Unemployment Rate		Per Capita Personal Income	
	(1)		Arizona	US
	Arizona	U.S.	Arizona	US
2003	5.60 %	6.00 %	\$ 26,838	\$ 31,632
2002	6.20	5.80	26,360	30,906
2001	4.70	4.80	26,055	30,527
2000	4.00	4.00	25,661	29,847
1999	4.40	4.20	24,057	27,939
1998	4.10	4.50	23,216	26,883
1997	4.70	5.00	21,861	25,334
1996	5.50	5.40	20,823	24,175
1995	5.10	5.60	19,929	23,076
1994	6.40	6.10	19,212	22,172

Source: Arizona Department of Economic Security's website, [www.workforce.az.gov](http://www.workforce.az.gov)

(1) Arizona unemployment rate estimates for 1997 and 2000 have been revised.

STATE OF ARIZONA  
**MAJOR PRIVATE EMPLOYERS**  
 FISCAL YEAR ENDED JUNE 30, 2004

Employer	Number of Employees
Wal-Mart Stores Inc	19,510
Banner Health	14,447
Honeywell International Inc.	12,000
Wells Fargo & Company	11,000
Raytheon Company	10,300
Bashas' Supermarkets	9,646
Albertsons-Osco	9,500
Intel Corporation	9,500
Safeway	9,500
JP Morgan Chase & Company	9,200

Source: The Business Journal Phoenix 2005 Book of Lists, pgs. 164-166.

STATE OF ARIZONA  
**POPULATION BY COUNTY**  
 FOR THE LAST TEN FISCAL YEARS

COUNTY	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
MARICOPA	3,396,875	3,296,250	3,192,125	3,072,149	2,913,475	2,806,100	2,720,525	2,634,625	2,528,700	2,355,900
PIMA	910,950	890,545	870,610	843,746	845,775	823,900	789,650	780,750	758,575	728,425
PINAL	201,565	192,395	186,795	179,727	165,400	157,675	150,375	144,150	139,000	132,225
YAVAPAI	186,885	180,260	175,305	167,517	155,900	148,500	142,075	134,600	130,300	123,500
MOHAVE	170,805	166,465	161,580	155,032	142,925	138,625	133,550	127,700	125,150	120,325
YUMA	175,045	169,760	165,280	160,895	139,650	135,200	129,275	124,950	121,975	119,650
COCHISE	126,160	124,040	121,435	117,755	124,575	123,750	119,650	114,925	112,000	108,225
COCONINO	128,925	125,420	122,770	116,320	122,825	121,625	117,475	113,475	110,750	107,500
NAVAJO	103,790	101,615	99,780	97,470	93,400	92,500	89,225	84,300	82,875	81,750
APACHE	70,625	70,105	69,880	69,423	66,950	66,350	55,500	64,475	63,750	63,275
GILA	53,555	53,015	52,420	51,335	50,150	49,175	47,450	45,300	44,525	43,350
GRAHAM	34,490	34,070	34,065	33,489	35,750	34,700	32,575	31,150	30,050	30,625
GREENLEE	8,595	8,605	8,590	8,547	9,225	9,125	8,875	8,650	8,525	8,425
LA PAZ	20,715	20,365	19,935	19,715	19,250	19,000	17,625	18,200	16,700	16,075
SANTA CRUZ	40,890	39,840	39,325	38,381	39,100	37,800	36,350	35,050	34,275	32,400
<b>TOTAL</b>	<b>5,629,870</b>	<b>5,472,750</b>	<b>5,319,895</b>	<b>5,131,501</b>	<b>4,924,350</b>	<b>4,764,025</b>	<b>4,590,175</b>	<b>4,462,300</b>	<b>4,307,150</b>	<b>4,071,650</b>

Source: Arizona Department of Economic Security

STATE OF ARIZONA  
**SCHEDULE OF BANK AND SAVINGS AND LOAN DEPOSITS**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004  
 (Expressed in Millions)

Fiscal Year	Banks			Total Deposits	Savings and Loans		
	State	Federal	Total		(1) State	Federal	Total
2004	\$ 7,272	\$ 49,042	\$ 56,314	\$ N/A	\$ 5,495	\$ 5,495	
2003	6,307	44,902	51,209	N/A	4,757	4,757	
2002	5,124	39,899	45,023	N/A	3,793	3,793	
2001	4,518	39,673	44,191	N/A	3,129	3,129	
2000	4,454	36,000	40,454	N/A	2,768	2,768	
1999	4,031	33,660	37,691	N/A	2,480	2,480	
1998	3,331	32,844	36,175	N/A	2,138	2,138	
1997	2,724	31,611	34,335	N/A	1,738	1,738	
1996	9,746	23,912	33,658	22	1,289	1,311	
1995	9,403	23,984	33,387	86	1,496	1,582	

(1) Missing information is not available as only Federal Savings and Loans are required to report to the Federal Deposit Insurance Corporation. Information on State Savings and Loans is no longer reported by the Arizona Banking Department.

Source: Federal Deposit Insurance Corporation

STATE OF ARIZONA  
**ASSESSED VALUE OF NEW COMMERCIAL  
AND RESIDENTIAL CONSTRUCTION**  
FOR THE LAST TEN CALENDAR YEARS

Calendar Year Ended December 31	COMMERCIAL CONSTRUCTION				RESIDENTIAL CONSTRUCTION			
	Number of	Value			Number of	Value		
	Permits Issued	Percent Change	(Expressed in Thousands)	Percent Change	Permits Issued	Percent Change	(Expressed in Thousands)	Percent Change
2003	57,387	2.29 %	\$ 4,104,953	4.01 %	94,260	13.54 %	\$ 10,646,256	24.04 %
2002	56,100	2.40	3,946,678	(21.68)	83,019	9.43	8,583,036	14.31
2001	54,785	1.69	5,038,963	5.32	75,863	1.65	7,508,550	9.40
2000	53,877	11.00	4,784,452	16.47	74,629	(7.21)	6,863,290	(5.52)
1999	48,536	12.08	4,107,783	(9.49)	80,432	3.66	7,263,997	8.83
1998	43,303	9.03	4,538,720	13.35	77,594	11.46	6,674,574	22.23
1997	39,717	9.69	4,004,022	1.41	69,613	5.17	5,460,787	11.19
1996	36,209	10.87	3,948,490	33.15	66,194	3.93	4,911,269	22.77
1995	32,659	8.04	2,965,456	30.15	63,688	(0.59)	4,000,436	(15.26)
1994	30,228	6.30	2,278,460	47.15	64,065	21.08	4,720,754	30.09

Source: W.P. Carey School of Business, Arizona State University  
Center for Business Research

STATE OF ARIZONA  
**PUBLIC SCHOOL ENROLLMENT - GRADES K-12**  
FOR THE LAST TEN ACADEMIC YEARS

Academic Year	Grades K-3	Grades 4-6	(1)	(2)	Total All Grades	High School Dropouts	
			Grades 7-9	Grades 10-12		(4) Total	(3,4) Percent
2003-04	305,772	229,413	243,225	224,220	1,002,630	N/A	N/A %
2002-03	301,289	227,372	234,309	207,313	970,283	26,516	8.50
2001-02	292,229	223,130	217,671	182,626	915,656	28,375	9.50
2000-01	288,421	215,648	206,838	168,080	878,987	28,862	9.80
1999-00	283,378	207,899	206,639	168,710	866,626	26,097	11.10
1998-99	278,746	199,017	198,083	157,455	833,301	31,844	12.20
1997-98	238,769	192,714	187,959	146,710	766,152	27,999	11.50
1996-97	264,925	188,959	187,220	145,723	786,827	30,294	12.80
1995-96	248,295	179,154	179,021	137,975	744,445	26,401	12.20
1994-95	243,608	177,402	176,942	135,932	733,884	25,369	12.10

- (1) Includes ungraded elementary enrollment, except for academic years 1997-98 and 1998-99.
- (2) Includes ungraded secondary enrollment, except for academic years 1997-98 and 1998-99.
- (3) Percent of total high school enrollment (Grades 9-12).
- (4) 2003-2004 data is not available.

Note: 2002 enrollments were provided at the school level and do not eliminate concurrent enrollments. Overstatement estimated at 100,000 over all grade levels.

Source: Arizona Department of Education

STATE OF ARIZONA  
**AVERAGE STATE PRISON ADULT INMATE POPULATION**  
 FOR THE LAST TEN FISCAL YEARS  
 FISCAL YEAR ENDED JUNE 30, 2004

Incarceration Institution	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Florence Complex	8,444	8,624	8,468	8,176	7,723	7,794	8,145	7,693	7,205	6,988
Lewis Complex	4,093	4,555	4,058	3,656	2,151	978	0	0	0	0
Perryville Complex	2,502	2,415	2,165	1,885	1,564	2,653	2,403	2,581	2,432	2,375
Phoenix Complex	887	906	940	957	1,325	1,256	1,804	1,275	1,407	1,331
Tucson Complex	3,539	3,931	3,874	3,607	3,898	4,016	4,071	3,966	3,677	3,483
Douglas Complex	2,146	2,147	2,154	2,130	2,190	2,183	2,214	1,944	2,214	2,053
Winslow Complex	1,722	1,807	1,824	1,791	1,768	1,635	1,671	1,736	1,741	1,522
Safford Complex	1,661	1,757	1,797	1,624	1,839	1,778	1,804	1,979	1,749	1,493
Yuma Complex	2,145	2,199	2,159	2,048	2,241	2,226	1,328	764	303	297
Misc Prison No	306	157	170	154	292	240	0	0	0	0
Private Prisons	4,492	2,400	1,664	1,423	1,411	1,410	444	445	0	0
<b>Total</b>	<b>31,937</b>	<b>30,898</b>	<b>29,273</b>	<b>27,451</b>	<b>26,402</b>	<b>26,169</b>	<b>23,884</b>	<b>22,383</b>	<b>20,728</b>	<b>19,542</b>
Repeat Offenders Admitted (1)	N/A	6,271	5,814	5,268	N/A	4,773	4,555	2,581	2,248	2,271

Source: Arizona Department of Corrections

(1) Repeat offenders are those who have one or more prior adult Arizona commitments.  
 2004 and 2000 data is not available.

STATE OF ARIZONA  
**PUBLIC HIGHER EDUCATION INSTITUTIONS'**  
**FULL-TIME EQUIVALENT FALL ENROLLMENT**  
 FOR THE LAST TEN YEARS

Institution	Fall 2004	Fall 2003	Fall 2002	Fall 2001	Fall 2000	Fall 1999	Fall 1998	Fall 1997	Fall 1996	Fall 1995
<b>Universities:</b>										
Arizona State University	53,873	52,265	49,980	47,086	44,637	43,910	42,946	43,105	40,910	39,552
Northern Arizona University	16,794	16,389	17,189	17,057	17,107	17,293	17,484	17,183	17,193	17,592
University of Arizona	34,018	33,807	33,089	32,460	30,981	31,008	30,733	30,403	29,724	31,042
<b>Total</b>	<b>104,685</b>	<b>102,461</b>	<b>100,258</b>	<b>96,603</b>	<b>92,725</b>	<b>92,211</b>	<b>91,163</b>	<b>90,691</b>	<b>87,827</b>	<b>88,186</b>
<b>Community Colleges:</b>										
Cochise County	2,288	2,273	2,303	2,387	2,141	2,173	2,453	2,419	2,267	2,270
Coconino County	1,660	1,433	1,459	1,378	1,449	1,454	1,308	1,364	1,485	1,387
Graham County	2,250	2,213	2,064	2,869	2,828	2,762	2,623	2,300	2,279	2,235
Maricopa County	53,262	51,098	48,678	44,693	42,320	41,104	39,435	37,265	37,064	35,903
Mohave County	2,069	1,765	1,922	1,856	1,763	1,876	1,788	1,671	1,805	1,731
Navajo County	2,196	2,122	2,119	2,095	1,875	1,444	1,624	1,711	1,744	1,723
Pima County	16,750	15,199	14,832	13,469	12,656	13,281	13,061	12,898	12,526	13,080
Pinal County	2,630	2,533	2,407	2,436	2,220	2,213	2,011	2,032	2,071	2,138
Yavapai County	2,794	2,559	2,503	2,403	2,272	2,343	2,322	2,348	2,254	2,382
Yuma/La Paz Counties	3,417	3,209	3,179	3,120	2,922	2,889	2,773	2,762	2,759	2,708
<b>Total</b>	<b>89,316</b>	<b>84,404</b>	<b>81,466</b>	<b>76,706</b>	<b>72,446</b>	<b>71,539</b>	<b>69,398</b>	<b>66,770</b>	<b>66,254</b>	<b>65,557</b>
<b>Total All Institutions</b>	<b>194,001</b>	<b>186,865</b>	<b>181,724</b>	<b>173,309</b>	<b>165,171</b>	<b>163,750</b>	<b>160,561</b>	<b>157,461</b>	<b>154,081</b>	<b>153,743</b>

Sources: Arizona Board of Regents  
 State Board of Directors for Community Colleges



## ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the Department of Administration, Financial Services Division, Financial Reporting Section:

Ron Santa Cruz  
Chris Freitag  
James Fagan  
Evan Chang  
Michael J. Kallaur, CPA

Dale Stomberg  
Brian Dodge  
Sylvia Berumen  
Charmayne Skow  
Marla Grossman

Special acknowledgment goes to:

All fiscal and accounting personnel throughout the Arizona State government, whose dedicated efforts and cooperation contributed to the compilation of financial information that appears in the report.

