

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

**THIS PAGE INTENTIONALLY
LEFT BLANK**

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. - Summary of Significant Accounting Policies

The accounting policies of the State of Arizona (State) are in conformity with Generally Accepted Accounting Principles (GAAP) as applicable to governmental units and are consistent with the Arizona Revised Statutes. Although accounts are separately maintained for each fund in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. The following is a summary of the more significant accounting policies:

A. Fund Accounting

The State utilizes Fund Accounting to account for and report on its financial activities. A fund, which is established for a specific purpose in accordance with the law, is a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. Funds are grouped into three broad categories as follows:

GOVERNMENTAL FUNDS

GENERAL FUND	A self-balancing set of accounts used to account for all financial resources except those required to be accounted for in another fund.
SPECIAL REVENUE FUNDS	A self-balancing set of accounts used to account for the proceeds of specific revenue sources (other than expendable trusts) that are legally restricted to expenditures for specified purposes.
OTHER GOVERNMENTAL FUNDS	A self-balancing set of accounts used to account for other government financial resources except those required to be accounted for in the General Fund or designated as Special Revenue Funds.

PROPRIETARY FUNDS

ENTERPRISE FUNDS	A self-balancing set of accounts used to account for operations that are financed and operated in a manner similar to private business enterprises.
INTERNAL SERVICE FUNDS	A self-balancing set of accounts used to account for the financing of goods and services provided by one department to other state departments of governments.

PERMANENT AND FIDUCIARY FUNDS

PERMANENT FUNDS	A self-balancing set of accounts used to account primarily for activity related to grants made to the State for schools and public institutions.
FIDUCIARY FUNDS	A self-balancing set of accounts used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations and other governments.

B. Basis of Accounting

The Annual Financial Report is prepared for funds on a cash basis of accounting in accordance with State law. Under the cash basis of accounting, revenues and expenditures are recognized when recorded in the State's central accounting system, the Arizona Financial Information System (AFIS). No allowance has been made to revenues or expenditures for unrecorded accounts receivable, accounts payable, deferred revenue or any other balance sheet item. Disbursements of appropriated monies, including related operating transfers, are reported as expenditures. The audited financial statements prepared in accordance with GAAP are published annually in the State's Comprehensive Annual Financial Report (CAFR).

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. - Summary of Significant Accounting Policies (Continued)

C. Reporting Entity

The accompanying General Fund cash basis financial statements include transactions of the following funds and accounts. The Tax Refund Account, Urban Revenue Sharing Fund, Excise Fund, and Cash in Lieu of Bonds Fund were added in FY12 to more accurately reflect ending General Fund Total Cash. The FY11 Comparative Balance Sheet has been restated in this report to include the addition of these funds.

General Fund - General Operations
Department of Revenue Excise and Transaction Privilege Tax Fund
Department of Revenue Temporary Transaction Privilege and Use Tax Fund
Budget Stabilization Fund
School Accountability Account (Proposition 301)
Tax Refund Account
Urban Revenue Sharing Fund
Excise Fund

	Restated June 30, 2011	Reported as of June 30, 2011
<u>ASSETS</u>		
Cash With The State Treasurer	\$ 85,003	\$ 58,044
Less: Payments Outstanding	44,063	19,727
Net Cash With the State Treasurer	40,940	38,317
Cash Not With The State Treasurer	188	188
Total Cash	41,128	38,505
Net Receivables	2,179	2,098
TOTAL ASSETS	\$ 43,307	\$ 40,603
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Claims Payable	\$ 22,996	\$ 22,888
Other Payables	5,499	3,417
TOTAL LIABILITIES	\$ 28,495	\$ 26,305
<u>FUND BALANCE</u>		
Restricted:		
Budget Stabilization Fund	\$ 18	\$ 18
School Accountability Account (Proposition 301)	10,849	10,849
Reserved For:		
Continuing Appropriations	-	-
Revolving Funds	188	188
Unreserved	3,757	3,243
TOTAL FUND BALANCE	\$ 14,812	\$ 14,298
TOTAL LIABILITIES AND FUND BALANCE	\$ 43,307	\$ 40,603

D. Fiscal Year Reporting

In accordance with A.R.S. § 35-102, the State operates on a fiscal year beginning July 1 and ending on the subsequent June 30. This report primarily covers Fiscal Year 2012 (FY12), the fiscal period ending June 30, 2012.

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 1. - Summary of Significant Accounting Policies (Continued)

E. Budgets and Appropriations Accounting

The State follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Annually the Governor submits to the Legislature a proposed operating and capital outlay budget for the fiscal year commencing the following July 1. This document includes proposed expenditures and the means of financing them.
2. Public hearings are then conducted during legislative sessions.
3. Prior to July 1, the budget is enacted through passage and approval of bills containing appropriations.
4. Appropriation accounting is then employed as a management tool to monitor the appropriated monies.

Typically, the commitment for continuing appropriations is reported as a reservation of Fund Balance. However, in Laws 2010, 7th Special Session, Chapter 3, section 13 for FY11 and in Laws 2011, 1st Regular Session, Chapter 26, section 13 for FY12, any continuing appropriations that remained at the end of the fiscal year were to be included in the closing balance as if they had lapsed or reverted. The legislation for the FY12 requirement was subsequently repealed by Laws 2010, 2nd Regular Session, Chapter 296, section 6. Consequently, continuing appropriations were not reported as a reservation for fund balance in FY11, but have been reported in the FY12 Fund Balance. See Note 3, section C for additional information about this change in accounting policy.

F. Rounding Differences

The information shown in the detail statements has been rounded to the nearest dollar, and therefore, minor differences may be found when adding the columns down or the rows across. The rounding differences are inconsequential.

Note 2. - Description of Financial Statements

- A. The accompanying financial statements include a balance sheet and statements of revenues, expenditures, and changes in fund balance for the General Fund. The comparative balance sheet for the General Fund displays additional detail in arriving at the amount for total assets and liabilities. The separate line items are composed of Cash With the State Treasurer (which may include cash and cash equivalents), Cash Not With the State Treasurer, and various receivable and payable items. This presentation will provide additional transparency of the financial statements and highlight the difference between Cash and Fund Balance.
- B. The Statement of Expenditures - Appropriation to Actual, Budgetary (Legal) Basis is presented for all appropriations. The Capital Outlay Statement of Expenditures - Appropriation to Actual includes all capital appropriations for the General Fund and the Capital Outlay Stabilization Fund.
- C. Administrative Adjustments are shown as Note 9 to the financial statements.

The General Fund is presented prominently in the Annual Financial Report (AFR) due to its significance. The Statements of Revenues, Expenditures and Changes in Fund Balance are presented for all other funds accounted for on the AFIS. The statements include beginning and ending balances for the current fiscal year as well as appropriated and non-appropriated activity in each fund. See Note 5 for additional detail on these Statements.

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 3. – Statement of Expenditures – Budgetary to Actual - Description of Selected Columns

A. Supplemental Appropriations and Adjustments

The column titled Supplemental Appropriations, Mid-Year Reversions and Adjustments shown on the Statement of Expenditures - Appropriations to Actual includes the following:

Supplemental and Special Appropriations are either the additional spending authority (appropriation) granted by the Legislature after the general appropriations act is approved or other Session Law appropriations granted by the Legislature to a State agency or department for a specific program or purpose.

Transfers and adjustments are the movements of monies or spending authority between funds, departments, programs and within programs in accordance with the Arizona Revised Statutes.

Mid-year reversions (when applicable) are the return of spending authority (appropriation) originally granted to a State agency or department through the appropriation process prior to the completion of the granted spending period.

B. Lapsed Appropriations

In accordance with A.R.S. § 35-190, except as otherwise provided by law, all appropriations lapse after the close of the fiscal year. The unused spending authority (appropriation) which was originally granted to a State agency or department through the appropriation process expires. The term “reversion” is sometimes used in reference to these lapsed appropriations. The amount of lapsed appropriations from the General Fund for FY12 is \$181,660,419 from General Operations and \$88,022 from Capital Outlay.

C. Continuing Appropriations

A continuing appropriation is a spending authority that, once established, is continuous, period after period, until amended or revoked. In the State of Arizona, continuing appropriations are primarily for construction or other projects that take longer than one year to complete. The total General Fund reserved for continuing appropriations is \$30,161,518 comprised of \$28,034,624 from General Operations and \$2,126,894 from Capital Outlay. When added to the General Fund amount restricted for the School Accountability Act, \$12,369,452, the total amount of continuing appropriations (restricted and reserved) is \$42,530,970.

Note 4. – Other Financing Sources

A. Temporary Transaction Privilege and Use Tax (TPT)

In a special election held on May 18, 2010, proposition 100 was approved by the voters to add a temporary 1% TPT beginning June 1, 2010. It is repealed effective May 31, 2013. For FY12, the State collected \$915,835,541 and allocated the collections as outlined in the proposition: two-thirds to public primary and secondary education; one-third to health and human services and public safety purposes. The allocations were as follows:

• Education Basic State Aid to School Districts	\$372,608,049
• Education Basic State Aid to Non-Profit Charter Schools	237,948,978
• Health and Human Services – DES Home & Community Based Services	90,945,818
• Health and Human Services – DHS Medicaid Behavioral Health	90,945,818
• Public Safety Operations	27,676,671
• Department of Corrections Private Prison Per Diem	95,710,207

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 4. – Other Financing Sources (Continued)

B. Budget Stabilization Fund

A.R.S. § 35-144 established the Budget Stabilization Fund (BSF) in 1990. The BSF is sometimes referred to as the rainy day fund. The purpose of the BSF is to normalize the fluctuations of the State's high and low growth rates. The amount of cash transferred to or from the BSF and the General Fund - General Operations is established by statutory formula. For FY12, Laws 2012, Second Regular Session, Chapter 294, Section 116 appropriated \$250,000,000 from the state general fund to the BSF. No operating expenditures may occur in the BSF. Interest earned on pooled investments with the State Treasurer is the basic revenue source of the BSF. The beginning FY12 balance for the BSF was \$17,850. The ending FY12 balance for the BSF was \$250,063,000.

Note 5. – Statement of Revenues, Expenditures and Changes in Fund Balance

A.R.S. § 35-131.E, requires the AFR to include all appropriated and non-appropriated monies. The General Fund is presented prominently in the AFR due to its significance. In accordance with the revised statute, the Statement of Revenues, Expenditures and Changes in Fund Balance presents appropriated and non-appropriated activity for all other funds accounted for on the AFIS as well as beginning and ending balances for each fund. As required, this report includes non-appropriated activity in the same detail as the General Fund. The Statement includes appropriated activity when applicable for each fund but summarized within a single line item labeled "Appropriated Activity."

During the course of the report compilation, a number of funds with negative balances were noted. No analysis of the accounts that comprise the negative balances was conducted as to the cause or the resolution. The following funds were noted with negative balances:

OTHER GOVERNMENTAL FUNDS:

Estate and Unclaimed Property Fund – Department of Revenue (RVA 1520)
Criminal Justice Enhancement Fund – State Treasurer (TRA 3702)
Federal Grant Fund – Department of Economic Security (DEA 2000)
Federal Grant Fund - Department of Environmental Quality (EVA 2000)
Federal Grant Fund - Department of Health Services (HSA 2000)
Federal Economic Recovery Fund – Department of Administration (2999)
Federal Economic Recovery Fund - Department of Health Services (HSA 2999)
Federal Economic Recovery Fund - School Facilities Board (SFA 2999)
Federal Economic Recovery Fund - Department of Public Safety (PSA 2999)
Indirect Cost Fund – Department of Environmental Quality (EVA 9000)

SPECIAL REVENUE FUNDS:

County Fair Racing – Department of Racing (RCA 2170)
Arizona Breeders Award Fund – Department of Racing (RCA 2206)
AZ Stallion Award Fund – Department of Racing (RCA 2315)
Racing Investigation Fund – Department of Racing (RCA 2369)
Cash Deposits Fund – Department of Transportation (DTA 2266)

INTERNAL SERVICE FUNDS:

Motor Pool Revolving Fund – Arizona Department of Administration (ADA 4204)

FIDUCIARY FUNDS:

ASRS Administrative Investment Expenses Account – Arizona State Retirement System (RTA 1407)
LTD Trust Fund Administration Account – Arizona State Retirement System (RTA 1408)
LGIP – COP Investment Held for Trustee – State Treasurer (TRA 3168)
Local Transportation Assistance Fund – State Treasurer (TRA 3747)
Racing Commission Bond Deposit Fund – Arizona Department of Racing (RCA 3720)
Registrar of Contractors Cash Bond Fund – Registrar of Contractors (RGA 3721)
Contractor Prompt Pay Complaint Fund – Registrar of Contractors (RGA 3725)
Big Game Permit Fund – Arizona Game and Fish Department (GFA 3712)

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 5. – Statement of Revenues, Expenditures and Changes in Fund Balance (Continued)

For management reporting purposes, certain accrual adjustments are recorded in the AFIS. This activity is consistent with the statutory or legal basis upon which the AFR is prepared and has not been modified. Current year adjustments to prior year accruals, such as refunds of prior years' expenditures or adjustments to long-term debts or receivables, are reflected in the Fund Balance report as an adjustment to the beginning fund balance. Additionally, other entries are current year transactions and are shown as GAAP Revenue and GAAP Expenditure Offsets. Revenue offsets are frequently the result of adjustments to amounts recorded as Due to Other funds. Expenditure offsets are most commonly related to depreciation and adjustment of fixed assets. GAAP Revenue and GAAP Expenditure Offsets are recorded in the Fund Balance Report in their respective revenue and expenditure columns. Furthermore, a number of funds have year-end cash balances on the AFIS, but other balance sheet accounts offset the cash resulting in a net fund balance of zero. This occurs most commonly with the Credit Card Clearing Fund.

Fund activity in the Fund Balance Report is shown on the statewide fund level. Some funds have activity with more than one agency and the report separates the activity within the fund by agency. Funds with activity in more than one section are listed in both sections and cross-referenced. For comparison purposes and consistency with the Statement of Expenditures – Appropriation to Actual, the Department of Economic Security Federal Grant Fund has not been combined on a statewide level. Detail is provided for each separate grant type.

Note 6. – American Reinvestment and Recovery Act (ARRA)

The American Recovery and Reinvestment Act (ARRA) was passed by the U.S. Congress in 2009 to distribute funds in order to spur economic activity, invest in long-term growth, and increase accountability and transparency in government spending. The State of Arizona has reported expenditures of ARRA monies received by the State in accordance with the requirements set forth by the U.S. Office of Management and Budget. The ARRA revenues and expenditures are included in this report. This information, along with additional ARRA detail, can be viewed on the website at www.recovery.gov or on the Arizona specific website at www.AZRecovery.gov.

Note 7. – Disproportionate Share Hospital Payments

Hospitals that treat significant populations of indigent patients are eligible to participate in the Disproportionate Share Hospital Program which provides special funding to those hospitals. In the State of Arizona, the Arizona Health Care Cost Containment System, under a Section 1115 Waiver approved by the Centers for Medicare and Medicaid Services (CMS) of the U.S. Department of Health and Human Services, and the Arizona State Legislature, are authorized to make payments to Arizona hospitals that provided care to a disproportionate share of the State's indigent population. Under the approved waiver, AHCCCS transferred \$95,688,282 to the State General Fund in FY12. FY11 amounts transferred included \$27.1 million attributable to FY10 that was not previously reported in the FY10 AFR.

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 8. – Combining Financial Statements

The following schedules provide additional detail related to the combination of fund information for financial statement presentation. The statements consist of General Operating Fund and two restricted funds: School Accountability Account (Proposition 301) and Budget Stabilization Fund.

**STATE OF ARIZONA
GENERAL FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2012
(expressed in thousands)**

	General Operating Fund	School Accountability Account (Proposition 301)	Budget Stabilization Fund	Total General Fund
ASSETS				
Cash With The State Treasurer	\$ 498,863	\$ 12,376	\$ 250,063	\$ 761,302
Less: Payments Outstanding	40,667	-	-	40,667
Net Cash with State Treasurer	458,196	12,376	250,063	720,635
Cash Not with State Treasurer	181	-	-	181
Total Cash	458,377	12,376	250,063	720,816
Net Receivables	1,661	-	-	1,661
TOTAL ASSETS	\$ 460,038	\$ 12,376	\$ 250,063	\$ 722,477
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Claims Payable	\$ 27,154	\$ -	\$ -	\$ 27,154
Other Payables	5,581	-	-	5,581
TOTAL LIABILITIES	\$ 32,735	\$ -	\$ -	\$ 32,735
FUND BALANCE				
Restricted				
Budget Stabilization Fund	\$ -	\$ -	\$ 250,063	\$ 250,063
School Accountability Account (Proposition 301)	-	12,376	-	12,376
Reserved For:				
Continuing Appropriations	30,162	-	-	30,162
Revolving Funds	181	-	-	181
Unreserved	396,960	-	-	396,960
TOTAL FUND BALANCE	\$ 427,303	\$ 12,376	\$ 250,063	\$ 689,742
TOTAL LIABILITIES AND FUND BALANCE	\$ 460,038	\$ 12,376	\$ 250,063	\$ 722,477

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 8. – Combining Financial Statements (Continued)

STATE OF ARIZONA
GENERAL FUND
COMBINING STATEMENT OF CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(expressed in thousands)

	General Operating Fund	School Accountability Account (Proposition 301)	Budget Stabilization Fund	Total General Fund
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, JULY 1, 2011	\$ 3,945	\$ 10,849	\$ 18	\$ 14,812
CHANGES IN FUND BALANCE:				
General Operating Fund				
Revenues	\$ 8,779,799	\$ 101,288	\$ -	\$ 8,881,087
Expenditures	(8,608,946)	(99,761)	-	(8,708,707)
Other Financing Sources (Uses):				
Transfers In - Treasurer's Warrant Notes	-	-	-	-
Transfers In - From Budget Stabilization Fund	-	-	-	-
Transfers In - Lease Purchase Agreement	-	-	-	-
Transfers in - Lottery Bond Proceeds	-	-	-	-
Transfers In - Other	252,505	-	-	252,505
Transfers Out - Treasurer's Warrant Notes	-	-	-	-
Budget Stabilization Fund				
Interest Earnings	-	-	-	-
Transfers In	-	-	250,045	250,045
Transfers Out - To General Operating Fund	-	-	-	-
TOTAL CHANGES IN FUND BALANCE	<u>\$ 423,358</u>	<u>\$ 1,527</u>	<u>\$ 250,045</u>	<u>\$ 674,930</u>
FUND BALANCE, JUNE 30, 2012	<u>\$ 427,303</u>	<u>\$ 12,376</u>	<u>\$ 250,063</u>	<u>\$ 689,742</u>

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 9. – Administrative Adjustments

The following expenditures were made in accordance with ARS § 35-191 during the fiscal year FY12 for obligations incurred during fiscal year FY11 and, therefore related to the appropriations for fiscal year FY11.

	Administrative Adjustments for Fiscal Year 2010-2011 <u>Appropriations</u>
<u>GENERAL GOVERNMENT</u>	
Department of Administration	\$ 191,607
Office of Equal Opportunity	6
Attorney General	232,446
Board of Equalization	262
Department of Revenue	65,349
Secretary of State	38,118
State Treasurer	36,086
State Board of Tax Appeals	<u>168</u>
 TOTAL GENERAL GOVERNMENT	 <u>\$ 564,042</u>
<u>HEALTH AND WELFARE</u>	
Department of Economic Security	\$ 13,269,405
Arizona Health Care Cost Containment System	12,054,284
Department of Health Services	7,430,590
Arizona Commission of Indian Affairs	5
Department of Veterans' Services	<u>2,985</u>
 TOTAL HEALTH AND WELFARE	 <u>\$ 32,757,269</u>
<u>INSPECTION AND REGULATION</u>	
Department of Agriculture	\$ 18,421
Department of Fire, Building and Life Safety	2,507
Department of Insurance	2,492
State Mine Inspector	5,475
Arizona Department of Racing	3,855
Department of Real Estate	31,189
Department of Weights and Measures	<u>1,867</u>
 TOTAL INSPECTION AND REGULATION	 <u>\$ 65,806</u>

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Note 9. – Administrative Adjustments (Continued)

	Administrative Adjustments for Fiscal Year 2010-2011 Appropriations
<hr/>	
EDUCATION	
Arizona Board of Regents	\$ 44,000
State Board for Charter Schools	2,861
Department of Education	7,000,000
Commission on the Arts	10,365
Arizona State Schools for the Deaf and the Blind	1,532,149
Prescott Historical Society	<u>53,157</u>
 TOTAL EDUCATION	 <u><u>\$ 8,642,532</u></u>
<hr/>	
PROTECTION AND SAFETY	
Board of Executive Clemency	1,666
Department of Juvenile Corrections	<u>1,171,173</u>
 TOTAL PROTECTION AND SAFETY	 <u><u>\$ 1,172,839</u></u>
<hr/>	
NATURAL RESOURCES	
Arizona State Forestry Division	290,700
Arizona Geological Survey	59
Arizona Navigable Streams Adjudication Commission	25,040
Department of Water Resources	<u>33,569</u>
 TOTAL NATURAL RESOURCES	 <u><u>\$ 349,368</u></u>
<hr/>	
SUMMARY	
GENERAL GOVERNMENT	\$ 564,042
HEALTH AND WELFARE	32,757,269
INSPECTION AND REGULATION	65,806
EDUCATION	8,642,532
PROTECTION AND SAFETY	1,172,839
TRANSPORTATION	0
NATURAL RESOURCES	<u>349,368</u>
 TOTAL ADMINISTRATIVE ADJUSTMENTS	 <u><u>\$ 43,551,856</u></u>

STATE OF ARIZONA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

**THIS PAGE INTENTIONALLY
LEFT BLANK**