

STATE OF ARIZONA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**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 departments of the State.

**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 adjustment has been made to revenues or expenditures for unrecorded accounts receivable, accounts payable, deferred revenue or other accrual. 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).

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**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, the Urban Revenue Sharing Fund, and the Excise Fund. These funds were included in the financial statements for the fiscal years ending June 30, 2012 and 2013 (FY12 and FY13) to more accurately reflect ending General Fund Total Cash.

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 2013 (FY13), the fiscal period ending June 30, 2013.

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.

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 Comparative Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for the General Fund. The Comparative Balance Sheet for the General Fund provides 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 provides additional transparency of the financial statements and highlights the difference between Cash and Fund Balance.
- B. The Statement of Expenditures - Appropriation to Actual, Budgetary (Legal) Basis is presented for all General Fund appropriations, including all capital appropriations from the General Fund.
- C. Administrative Adjustments are shown as Note 9 to the financial statements.
- D. 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 in 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.

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**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 or within funds, departments, and 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 authorized 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 FY13 is \$164,481,593 from General Operations and \$839,061 from Capital Outlay.

C. Continuing Appropriations

A continuing appropriation is 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 of \$50,265,530 comprised of \$40,162,794 from General Operations, \$19,215,336 from Capital Outlay, and reduced by the restricted School Accountability Fund balance of \$9,112,600.

**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 was repealed effective May 31, 2013. For FY13, the State collected \$962,171,976 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	\$ 378,028,665
Education Basic State Aid to Non-Profit Charter Schools	263,419,319
Health and Human Services – DES Home and Community Based Services	47,657,361
Health and Human Services – DHS Medicaid Behavioral Health	47,657,361
Public Safety Operations	27,159,831
Department of Corrections - Private Prison Per Diem	94,929,214
Department of Corrections - Inmate Health Care Contracted Services	103,320,225

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**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 financial 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. Laws 2012, Second Regular Session, Chapter 294, Section 116 appropriated \$250,000,000 and \$200,000,000 from the State General Fund to the BSF for FY12 and FY13, respectively. No operating expenditures may be made from the BSF. Interest earned on pooled investments with the State Treasurer is the basic revenue source of the BSF. The beginning FY13 balance for the BSF was \$250,063,000; the ending FY13 balance for the BSF was \$454,101,736,.

**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 in 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:

Criminal Justice Enhancement Fund - State Treasurer (TRA 3702)  
Federal Grant Fund - Department of Environmental Quality (EVA 2000)  
AHCCCS Fund – AHCCCS (HCA 2120)  
Federal Grant Fund - Department of Health Services (HSA 2000)  
Credit Card Clearing Fund - Department of Health Services (HSA 2600)  
Federal Economic Recovery Fund - Department of Health Services (HSA 2999)  
Nuclear Emergency Management Fund - Radiation Regulatory Agency (AEA 2138)  
Arizona Arts Trust Fund – Corporation Commission (CCA 3014)  
IGA and ISA Fund - Department of Corrections (DCA 2500)  
Unclaimed Property Fund – Department of Revenue (RVA 1520)

SPECIAL REVENUE FUNDS:

Receivership Liquidation - Department of Insurance (IDA 3104)  
Cash Deposits Fund - Department of Transportation (DTA 2266)

INTERNAL SERVICE FUNDS:

Motor Vehicle Pool Revolving Fund - DOA-Risk Management (ADA 4204)

ENTERPRISE FUNDS:

Clean Water Federal Funds - Water Infrastructure Finance Authority (WFA 4310)  
Drinking Water Federal Funds - Water Infrastructure Finance Authority (WFA 4335)

FIDUCIARY FUNDS:

ASRS Admin Investment Expenses Account- Retirement System (RTA 1407)  
LTD Trust Fund Administration Account - Retirement System (RTA 1408)  
LGIP-COP Investment Held for Trustee - State Treasurer (TRA 3168)  
Treasurer Administrative Fund - State Treasurer (TRA 3736)

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

Local Trans Assistance - State Treasurer (TRA 3848)  
Manufactured Housing Cash Bond - Department of Fire, Building and Life Safety (MMA 3722)  
Registrar of Contractors Cash Bond Fund - Registrar of Contractors (RGA 3721)  
Contractors Prompt Pay Complaint Fund - Registrar of Contractors (RGA 3725)  
Game and Fish Big Game Permit - Game and Fish Department (GFA 3712)

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 in 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](http://www.recovery.gov) or on the Arizona specific website at [www.AZRecovery.gov](http://www.AZRecovery.gov).

**Note 7. – Disproportionate Share Hospital Payments**

Hospitals that have a qualifying Medicaid Inpatient Utilization Rate and uncompensated care costs are eligible to participate in the Disproportionate Share Hospital Program (DSH) which provides supplemental funding to those participating 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, is 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 \$78,508,005 to the State General Fund in FY13. The Affordable Care Act requires annual aggregate reductions to the program totaling \$18.6 billion through Federal Fiscal Year (FFY) 2020 beginning with a \$500 million reduction in FFY 2014. Arizona's share of the FFY 2014 amount is being determined by CMS pursuant to the DSH Health Reform methodology.

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**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, 2013  
(expressed in thousands)

	General Operating Fund	School Accountability Account (Proposition 301)	Budget Stabilization Fund	Total General Fund
<b>ASSETS</b>				
Cash With The State Treasurer	\$ 1,018,918	\$ 9,992	\$ 454,102	\$ 1,483,012
Less: Payments Outstanding	38,569	-	-	38,569
Net Cash with State Treasurer	980,349	9,992	454,102	1,444,443
Cash Not with State Treasurer	178	-	-	178
Total Cash	980,527	9,992	454,102	1,444,621
Net Receivables	3,357	-	-	3,357
<b>TOTAL ASSETS</b>	<b>\$ 983,884</b>	<b>\$ 9,992</b>	<b>\$ 454,102</b>	<b>\$ 1,447,978</b>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Claims Payable	\$ 32,786	\$ 879	\$ -	\$ 33,665
Other Payables	5,180	-	-	5,180
<b>TOTAL LIABILITIES</b>	<b>\$ 37,966</b>	<b>\$ 879</b>	<b>\$ -</b>	<b>\$ 38,845</b>
<b>FUND BALANCE</b>				
Restricted				
Budget Stabilization Fund	\$ -	\$ -	\$ 454,102	\$ 454,102
School Accountability Account (Proposition 301)	-	9,113	-	9,113
Reserved For:				
Continuing Appropriations	50,265	-	-	50,265
Revolving Funds	178	-	-	178
Unreserved	895,475	-	-	895,475
<b>TOTAL FUND BALANCE</b>	<b>\$ 945,918</b>	<b>\$ 9,113</b>	<b>\$ 454,102</b>	<b>\$ 1,409,133</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 983,884</b>	<b>\$ 9,992</b>	<b>\$ 454,102</b>	<b>\$ 1,447,978</b>

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**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, 2013  
(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, 2012	\$ 427,303	\$ 12,376	\$ 250,063	\$ 689,742
CHANGES IN FUND BALANCE:				
General Operating Fund				
Revenues	\$ 9,022,502	\$ 99,380	\$ -	\$ 9,121,882
Expenditures	(8,611,211)	(102,643)	-	(8,713,854)
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	107,324	-	-	107,324
Transfers Out - Treasurer's Warrant Notes	-	-	-	-
Budget Stabilization Fund				
Interest Earnings	-	-	-	4,039
Transfers In	-	-	204,039	200,000
Transfers Out - To General Operating Fund	-	-	-	-
TOTAL CHANGES IN FUND BALANCE	<u>\$ 518,615</u>	<u>\$ (3,263)</u>	<u>\$ 204,039</u>	<u>\$ 719,391</u>
FUND BALANCE, JUNE 30, 2013	<u>\$ 945,918</u>	<u>\$ 9,113</u>	<u>\$ 454,102</u>	<u>\$ 1,409,133</u>

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**Note 9. – Administrative Adjustments**

The following expenditures were made in accordance with ARS § 35-191 during the fiscal year FY13 for obligations incurred during fiscal year FY11 and, therefore related to the appropriations for fiscal year FY12.

		Administrative Adjustments for Fiscal Year 2011-2012 Appropriations
<b>GENERAL GOVERNMENT</b>		
Department of Administration	\$	7,282,673
Office of Equal Opportunity		108
Attorney General (Department of Law)		233,713
Court of Appeals		1,052
Board of Equalization		13,288
Department of Housing		33,236
Lottery Commission		361,890
Personnel Board		187
Capital Post Conviction Public Defender		4,412
Department of Revenue		34,092
Supreme Court		4,102
Secretary of State (Department of State)		27,330
State Treasurer		112,364
Board of Tax Appeals		663
TOTAL GENERAL GOVERNMENT	\$	8,109,110
<b>HEALTH AND WELFARE</b>		
Department of Economic Security	\$	128,760,204
Commission for Deaf and Hard of Hearing		18,932
Department of Environmental Quality		845,086
AHCCCS		29,674,213
Department of Health Services		3,010,317
Pioneers' Home		13,008
Department of Veterans' Services		3,462
TOTAL HEALTH AND WELFARE	\$	162,325,222
<b>INSPECTION AND REGULATION</b>		
Board of Accountancy	\$	7,789
Radiation Regulatory Agency		2,614
Department of Agriculture		3,604
Acupuncture Board of Examiners		73
Board of Barbers		607
Board of Appraisal		22,991
Department of Financial Institutions		3,607
Board of Nursing		10,601
Corporation Commission		13,751
Board of Chiropractic Examiners		5,981
Board of Dispensing Opticians		39
Board of Funeral directors and Embalmers		603
Department of Gaming		28,886
Board of Homeopathic Examiners		43
Industrial Commission		163,397

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**Note 9. – Administrative Adjustments (Continued)**

Medical Board	232
Mine Inspector	3,656
Board of Ex Nursing Care	192
Board of Optometry	190
Board of Osteopathic Examiners	2,354
Board of Pharmacy	3,409
Board of Podiatry Examiners	37
Board of Physical Therapy	1,461
Board for Private Postsecondary Education	55
Board of Respiratory Care Examiners	784
Real Estate Department	3,371
Registrar of Contractors	2,684
Board of Psychologist Examiners	2,124
Board of Technical Registration	5,833
Residential Utility Consumer Office	663
Weights and Measures	30,778
TOTAL INSPECTION AND REGULATION	<u>\$ 322,408</u>

**EDUCATION**

Board for Charter Schools	\$ 10,385
Prescott Historical Society	53,537
Schools for the Deaf and the Blind	1,845,397
School Facilities Board	4,577
TOTAL EDUCATION	<u>\$ 1,913,896</u>

**PROTECTION AND SAFETY**

Department of Corrections	\$ 8,814,665
Department of Juvenile Corrections	712,310
Criminal Justice Commission	19,448
Law Enforcement Merit System	190
Department of Emergency and Military Affairs	402
Board of Executive Clemency	1,180
Department of Public Safety	9,535
TOTAL PROTECTION AND SAFETY	<u>\$ 9,557,731</u>

**TRANSPORTATION**

Department of Transportation	\$ 874,508
TOTAL TRANSPORTATION	<u>\$ 874,508</u>

**NATURAL RESOURCES**

Office of the State Forester	\$ 186,109
Game and Fish Department	5,751
Land Department	2,192
Navigable Stream Adjudication Commission	3,295
Parks Board	11,894
Department of Water Resources	5,182
TOTAL NATURAL RESOURCES	<u>\$ 214,423</u>

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**Note 9. – Administrative Adjustments (Continued)**

**SUMMARY**

GENERAL GOVERNMENT	\$ 8,109,110
HEALTH AND WELFARE	162,325,222
INSPECTION AND REGULATION	322,408
EDUCATION	1,913,896
PROTECTION AND SAFETY	9,557,731
TRANSPORTATION	874,508
NATURAL RESOURCES	<u>214,423</u>
 TOTAL ADMINISTRATIVE ADJUSTMENTS	 <u><u>\$ 183,317,298</u></u>