



# State of Arizona Accounting Manual

Topic 80 Miscellaneous  
Section 15 Sponsorships

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## INTRODUCTION

It is not unusual for an agency or program to wish to sponsor some organization or activity which might be thought to be worthy of financial support. The purpose of this SAAM section is to neither encourage nor dissuade sponsorships, but rather to establish the parameters agency and program managers must take into consideration when deciding whether to act as a financial sponsor of a given organization or activity.

As a prelude to the policies, it may be of value at this point to distinguish a sponsorship from a grant or payment to a vendor. A grant requires fairly specific performance in exchange for grant proceeds and significant accountability for the use of the funds provided under a grant agreement. Payment to a vendor requires the delivery of some specified goods or services. A sponsorship, until the offer of support is made and acceptance, does not initiate an obligation to pay on the part of the sponsor and rarely, if ever, impose a specific performance obligation upon the recipient of the sponsorship. Rather, sponsorship arrangements are more general in their nature—wholly or partially underwriting such things as an ad campaign, a conference, or the general operations of the recipient.

When an agency or program undertakes a sponsorship, it involves the direct (i.e., the payment of money, offset of liabilities, etc.) or indirect (e.g. the provision of materials, State employee labor during work hours, etc.) expenditure of public money and is, hence, subject to all of the restrictions that apply to such an expenditure.

Article IX, Section 7 of the Arizona Constitution, the “gift clause,” prohibits the giving of gifts, loans, etc. to individuals. In addition, the notes to this article state that “Public funds are to be expended only for public purposes and cannot be used to foster or promote purely private or personal interests of any individual.”

Prior to providing a sponsorship, an appropriate anticipated benefit vs. cost analysis and consideration of how the expenditure does not violate the gift clause must be prepared. The analysis of the adequacy of the consideration for gift clause purposes should focus on the objective fair market value of what the private party has promised to provide in return for the public entity’s payment. Relevant consideration consists of direct benefits that are bargained for as part of the contracting party’s promised performance and does not include anticipated indirect benefits. See Turken, 223 Ariz. at 350 ¶ 33 and other relevant case law.

The gift clause is a very dynamic area of law within Arizona and is regularly going through various litigation and challenges that could impact and change how the law is interpreted and applied. The GAO cannot provide legal advice, nor can it approve any exception to law. Agencies should seek advice and guidance from their legal counsel and/or the Office of the Arizona Attorney General to understand its risk and

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responsibilities under the law. Exceptions to this policy cannot be provided as this would require an exception to the law or a determination of the adequacy of the agency's documentation.

When used in the policy statements below, the following terms have the meanings indicated:

- "Agency" refers both to the agency itself and any programs administered within a given agency's authority.
- "Expenditure" refers both to direct and indirect expenditures.
- "Sponsorship" refers to a sponsorship involving expenditures made or to be made by an agency or a program administered by an agency.

## **POLICIES**

1. The benefits anticipated to be realized by the State from a sponsorship must demonstrably equal and preferably exceed the cost of the sponsorship to the State.
  - 1.1. The anticipated benefit vs. cost analysis (analysis) done by an agency in making its decision to sponsor an activity or event should be documented and retained in accordance with the retention period prescribed for accounting records by LAPR.
  - 1.2. The analysis must clearly state how the sponsorship under consideration is expected to directly advance agency or program objectives.
  - 1.3. The analysis must contain a comparison between the costs and benefits associated with alternative sponsorships and/or activities.
2. Any expenditures to be made that relate to a sponsorship should be coordinated with the agency's procurement officer and must comply with the Arizona State Procurement Code.
3. A sponsorship must not represent a conflict of interest. Such arrangements must not be entered into to promote the personal interests of any individual initiating or authorizing the related sponsorship expenditures.
4. Any potential recipient of a sponsorship must be appropriately vetted. This vetting should include whatever investigation is applicable. For example, if the recipient is a charity, an organization's evaluation is available at [www.give.org](http://www.give.org); for many local enterprises, the Better Business Bureau is a reputable source of information.
5. Much thought must be given as to whether the contemplated sponsorship represents the best use of agency resources. Best use implies that the agency receives the greatest value in attaining a goal for the amount of the expenditure. when the recipient and the agency have compatible goals, piggy-backing on a recipient's event by way of sponsorship might represent an efficient, effective and economical investment.

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6. An agency should evaluate a sponsorship expenditure much the way it would the award of a grant. Will providing assistance to the recipient help the agency accomplish its goals? Is this expenditure a good, possibly the best, way of accomplishing the agency's goals? Can providing the sponsorship accomplish an agency's goals when the agency itself cannot readily do so?
7. Any sponsorship that is provided must be very directly related to the goals and objectives the agency is trying to accomplish.

Example: The mere fact that the Chimney Sweep Board regulates professional chimney sweeps is not sufficient justification to sponsor a table at the National Chimney Sweep Association Annual Dinner. What benefit would this be to State? Would the benefits derived from such a sponsorship exceed the cost? What would the benefits be? How would this sponsorship help the Chimney Sweep Board meet its objectives? While it may enhance the reputation of the agency or agency management, it remains that to be a professional chimney sweep one needs to be licensed by the Chimney Sweep Board whether or not the agency purchases a table at the dinner. If the Association allows the agency to collect, at the dinner, donations to support an agency program, the sponsorship might be justified.

8. All potential sponsorship agreements must be reviewed by appropriate legal counsel (e.g. internal, Office of the Arizona Attorney General, etc.) before any sponsorship is provided. ADOA cannot provide this legal guidance or determination.
9. This policy applies to sponsorships of events or activities not conducted by State agencies (i.e., an agency, for example, sponsoring a booth at the State Fair is not subject to the restrictions and documentation requirements of this policy; it may, nonetheless, be required to comply with legal review).
10. The agency is directly accountable and responsible for documenting and defending all situations when sponsorships are provided under this policy and any possible ramifications including possible audit findings and litigation.