

# STATE OF ARIZONA

## CLOSING PACKAGE

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**ACCOUNTS PAYABLE:** An amount is an Accounts Payable at June 30 only if your agency both:

- Receives the related goods or services on or before June 30 and,
- Pays (or plans to pay) the vendor after June 30.

Accounts Payables are current liabilities. For closing package purposes, Accounts Payables involve only payments to non-State vendors. That is, Accounts Payable do not include amounts your agency owes:

- To other funds within your agency or to other agencies
- For payroll and employee fringe benefits
- For debt service

Accounts Payables include estimates of amounts that your agency knows it owes even if the vendor has not yet issued an invoice. Examples are payments to social service providers and utilities.

**ACCRUAL BASIS:** GAAP requires use of the accrual basis of accounting for proprietary and fiduciary funds. The accrual basis of accounting requires the State to:

- Record revenues in the fiscal year in which we earn them, regardless of when we receive payment. We earn revenues when:
  - An exchange transaction has occurred
  - The earnings process is complete or almost complete
- Record Accounts Receivable if, at June 30, we have:
  - Earned revenue
  - Not yet collected the related cash
- Record Unearned Revenue if, at June 30, we have:
  - Collected cash
  - Not yet earned the related revenue

For fiduciary funds, a liability to the beneficiaries of a fiduciary activity should be recognized in a fiduciary fund when an event has occurred that compels the State to disburse fiduciary resources. Events that compel the State to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

**ACCUMULATED DEPRECIATION:** The sum of all yearly depreciation expenses (including the current year) recorded on the asset since acquisition.

**ACCUMULATED UNUSED ANNUAL LEAVE, COMPENSATION TIME, OR SICK LEAVE:** Leave earned but unused; compensated absences that may be carried forward to one or more periods even though there may be a limit to the amount that can be carried forward.

**ADMINISTRATIVE ADJUSTMENTS:** A claim for goods or services which has not been paid because of failure to file within the time prescribed by law; or any other technical defect not affecting the validity of the contractual liability of the state, is subject to administrative adjustment as provided by ARS §35-191.

Administrative adjustments may be applied only to appropriated funds. To be eligible for payment under this section, the goods or services should have been received prior to July 1, of the current fiscal year.

**ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS RECEIVABLE:** An estimate of the amount of Accounts Receivable which is owed to the State at June 30 which will not be collected in the foreseeable future. GAAP requires that the State report an Allowance for Uncollectible Accounts Receivable, if applicable. The financial statements show gross Miscellaneous Accounts Receivable less the allowance. Your agency must estimate the allowance. You may wish to base your estimate on historical data. That is:

- Gather historical data on revenue collectability.

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- Evaluate the collectability of Miscellaneous Accounts Receivable at June 30 based on the historical data.

**AMORTIZATION:** When applied to a capital asset, amortization is the allocation of its cost over the period of its economic benefit. Amortization is calculated by expensing a prorated portion of the capital asset's cost each year of its estimated useful life and may be applied to both tangible and intangible assets.

**ANNUAL LEAVE:** Employees may accumulate and carry forward up to 320 (240 if a covered employee) hours of annual leave from one year to the next. An employee who separates from State service is paid their unused and unforfeited annual leave at the employee's rate of pay at the time of separation.

**ASSET RETIREMENT OBLIGATION:** A legally enforceable liability associated with the retirement of a tangible capital asset (that is, the tangible capital asset is permanently removed from service). The retirement of a tangible capital asset encompasses its sale, abandonment, recycling, or disposal in some other manner; however, it does not encompass the temporary idling of a tangible asset.

**AVAILABILITY PAYMENT ARRANGEMENT (APA):** An APA is an arrangement in which a government compensates an operator for activities that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. Components of an APA that are related to the design, construction, or financing of a nonfinancial asset in which ownership of the asset transfers to the government by the end of the contract should be reported as a financed purchase.

**AVAILABLE:** In governmental funds, a revenue is available at June 30 if you will collect it either:

- On or before June 30
- Soon enough after June 30 to pay liabilities that exist at June 30

**BASIS OF ACCOUNTING:** The basis of accounting determines when to recognize revenues (and expenditures/expenses) in the financial statements.  
(Also, see the definitions of **ACCRUAL BASIS**, **CASH BASIS**, and **MODIFIED ACCRUAL BASIS**.)

**BOOK BALANCE:** The book balance of a bank account is the balance on your accounting records or in your checkbook on June 30. Your agency should reconcile the book balance with the statement the bank provides.

**BOOK VALUE:** Book value is the asset value that appears on the agency's (and the State's) financial statements and ledgers. For proprietary and fiduciary trust funds' fixed assets, book value is the cost of acquisition less accumulated depreciation.

**BUILDINGS AND IMPROVEMENTS:** Buildings are permanent structures housing persons or personal property. Building improvements are long-lived attachments to buildings that significantly increase the life, usefulness, or value of a building. One cannot move or separate building improvements from the building. Examples of building improvements include elevators, air conditioners, and heating systems. The Building and improvements category also includes costs of major renovations that significantly extend the life or usefulness of a building. Ordinary repair and maintenance costs are not building improvements even though they could have significant costs, such as a roof replacement.

**CAPITAL EXPENDITURES:** Expenditures, which result in acquisition of or an addition to fixed assets.

**CAPITAL GRANTS:** Grants, which are restricted by the grantor for the acquisition and/or construction of fixed assets.

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**CAPITAL PROJECT FUND:** A governmental fund defined as a self-balancing set of accounts used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary or fiduciary funds.

**CAPITALIZATION CRITERIA:** Only those equipment items having a unit cost of \$5,000 or more and a useful life of more than one year are to be capitalized. Equipment items having a unit cost of less than \$5,000 are properly classified as non-capital equipment.

All land and buildings are capitalized regardless of cost. Improvements other than buildings having a total project cost of \$5,000 or more are to be capitalized. Improvement projects having a total project cost of less than \$5,000 are properly classified as maintenance and/or repair items.

**CASH:** Cash includes:

- Cash on hand (for example, petty cash)
- Cash on deposit with treasurer
- Deposits with financial institutions (checking or savings)
- Cash or deposits your agency holds in a trustee capacity or as an agent for others

**CASH BASIS:** Under the cash basis of accounting, we:

- Record Revenues in the fiscal year in which we collect the related cash
- Do not record Miscellaneous Accounts Receivable
- Do not record Current or Delinquent Tax Receivable
- Do not record any Allowance for Uncollectible Accounts Receivable
- Do not record any Allowance for Uncollectible Tax Revenues
- Do not record Tax Refunds Payable
- Do not record any Unearned Revenue

**CASH EQUIVALENTS:** “Cash Equivalents” include all short term investments such as certificates of deposits, repurchase agreements, and U.S. Treasury Bills that can be immediately converted to cash. All cash equivalents should be reported at cost.

**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 or Surety Bonds equal to 100% of the deposits so collateralized.

**COMPENSATED ABSENCE:** Compensated absences are employee absences (such as, but not limited to annual leave, sick leave, holidays, compensatory time) which have been earned but remain unpaid as of a certain date. Compensated absences may be sporadic in nature as well, such as parental leave, civic duty leave, and military leave.

Compensated absences may give rise to liabilities that should be reflected in financial statements or indicated in footnotes.

**CONSTRUCTION COMMITMENTS OUTSTANDING:** Your agency may have construction projects that are only partially complete at June 30. Further, there may be signed contracts that commit the State to pay for completion of these projects. To compute the amount of commitments outstanding:

- Compute the outstanding commitment for each project in progress at June 30 as the difference between:
  - The contract price
  - Amounts the State has paid contractors from the start of the project through June 30
- Add together the outstanding amounts for all projects in progress at June 30

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**CONSTRUCTION IN PROGRESS:** Construction in Progress includes costs of constructing fixed assets before construction is substantially complete. Fixed assets that are substantially complete and available for use on June 30 are no longer recorded as Construction in Progress and should be reclassified in their respective categories such as:

- Building and Improvements
- Land and Improvements
- Furniture, Vehicles and Equipment

**CONTRACT RETENTIONS:** On some construction contracts, your agency may withhold part of each payment from the contractor until the project is complete. The amounts you withhold are contract retentions. Determine contract retention amounts by reviewing Architect and Engineers Certificates of Payment. Report contract retentions as accounts payable.

**CURRENT LIABILITY:** Current liabilities are:

- Liabilities that an agency expects to pay from expendable available financial resources in governmental funds. In these funds agencies should report current liabilities only for liabilities they pay in the 13th month.
- Liabilities payable within one year in proprietary and fiduciary funds.

**DEBT SERVICE FUND:** A governmental fund defined as a self-balancing set of accounts used to account for the resources for, and the payment of, long-term debt principal, interest, and related costs.

**DEPRECIATION:** Depreciation is the recognition of a tangible capital asset's deterioration or devaluation over the period of its projected physical utility. To compute depreciation of a fixed asset, you must first determine its estimated useful life. Then prorate the cost of the asset among the fiscal years of its estimated useful life. There are several methods for prorating the cost (see definition of Straight-Line Depreciation Method). Depreciation for a fiscal year is the portion of the asset's cost that is recorded as an expense in that year.

**DESIGNATED:** Indicates tentative plans to use financial resources in a future period, such as for general contingencies or equipment replacement. These plans are subject to change and are not actual commitments.

**DISALLOWANCE:** Grantors routinely review and/or audit the programs they fund to be sure that recipients have followed all program rules. The review or audit may question certain costs. After some discussion, the State and the grantor will agree on settlement terms. Questioned costs become disallowances only when the State agrees to do one or both of the following:

- Make current or future payments to the grantor.
  - The payments may be direct or indirect. For example, the State may pay indirectly by reducing future grant expenditure reports to offset earlier disallowed costs.
  - The payments may equal the amount of disallowed costs or include penalty amounts.
- Accept current or future reductions in grant or entitlement funds already awarded to the State.

**DUE FROM OTHER GOVERNMENTS:** Due From Other Governments is a separate category of Loan/Note Receivables. GAAP requires that we use this account to report any loans, notes, or advances that we make to other governments.

(Also, see the definitions of **LOANS RECEIVABLE** and **NOTES RECEIVABLE**.)

**EMPLOYEE RELATED EXPENDITURES:** Employee Related Expenditures (ERE) are obligations that a government incurs related to providing leave in exchange for services rendered. Only EREs that are *directly and incrementally associated* with the leave should be included in the compensated absences liability. An ERE is *directly associated* if the amount of the payment depends on the amount of salary to be paid - i.e. a percentage of the amount to be paid (health insurance is NOT directly associated to pay rates). An ERE is *incrementally associated* if the amount will be paid in addition to the payment for the salary.

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**ENCUMBRANCE ACCOUNTING:** Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrances become Accounts Payable only when the State receives the related goods and services. Some governments and agencies record encumbrances when they issue purchase orders, sign contracts, or otherwise commit to future expenditures. Recording an encumbrance sets aside a portion of the applicable appropriation. Encumbrance accounting helps to prevent expenditures from exceeding appropriations.

**ENTERPRISE FUND:** A proprietary fund defined as a self-balancing set of accounts used to account for operations that are financed and operated in a manner similar to private business enterprises.

**ENTITLEMENT:** An entitlement consists of cash or other assets that another government (usually the Federal government) contributes to the State. Entitlement programs are similar to grants. Entitlement programs, however, base awards on allocation formulas contained in applicable laws. Entitlement programs award specific amounts for particular accounting periods and impose few real restrictions. Once the State receives an entitlement award, only the State's failure to follow prescribed regulation will cause loss of the funds.

**FAIR VALUE:** Fair value is the price at which an asset would change hands if both buyer and seller:

- Are willing parties
- Have knowledge of all related facts
- Are under no compulsion to buy or sell

Data helpful in determining fair market value includes:

- Independent appraisals
- Market quotations
- Figures on actual sales of similar assets in appropriate time frame

**FINANCED PURCHASES OF UNDERLYING ASSETS:** Contracts that (a) transfer ownership of the underlying asset to the lessee by the end of the contract and (b) does not contain termination options, but that may contain a fiscal funding or cancellation clause that is not reasonable certain of being exercised. Provisions that allow for termination of a lease due to (1) purchase of the underlying asset, (2) payment of all sums due, or (3) default on payments, are not considered termination options.

**FIRST-IN, FIRST-OUT (FIFO):** FIFO is an inventory valuation method based on the assumption that items are used in the order in which they are purchased. That is, items on hand represent the most recent purchases.

**FIXED ASSET:** Fixed assets are significant assets costing at least \$5,000 that the State plans to hold or use for a long time, (longer than one year). Short lived assets and those costing under \$5,000 are not fixed assets. Examples of fixed assets include Land, Land Improvements, Works of Art and Historical Treasures, Infrastructure, Intangible Assets, Buildings, Building Improvements, Construction in Progress, and Machinery and Equipment.

**FIXED ASSET ADDITIONS:** State agencies purchase and construct new fixed assets and receive donated fixed assets during the year. These are fixed asset additions. Donated assets received from other State agencies or funds are intra-State transfers rather than additions.

**FIXED ASSET RETIREMENTS:** Retired fixed assets are fixed assets no longer actively used by the State. Sold, scrapped, destroyed, and stolen fixed assets are examples of retirements. Fixed asset retirements include transfers to Surplus Property and sales to other State agencies. Fixed assets donated to other State agencies or funds, however, are intra-State transfers rather than retirements.

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**FURNITURE, VEHICLES AND EQUIPMENT:** This category includes all fixed assets not included in Buildings and Improvements, Land and Improvements, or Construction in Progress. Machinery, Equipment and Other Fixed Assets include:

- Furniture and fixtures
- Vehicles and movable equipment
- Heavy equipment and machinery
- Computers, word processing and office equipment
- Library and Museum acquisitions
- Other miscellaneous fixed assets

**GAIN CONTINGENCY:** Gain contingencies are situations involving uncertainty as to possible gain that will be resolved when certain events occur or fail to occur.

**GENERAL FUND:** A governmental fund defined as a self-balancing set of accounts used to account for all financial resources except those required to be accounted for in another fund.

**GRANT:** A grant consists of cash or other assets that a grantor contributes to the State. The State must apply for grant funds. The grantor then decides whether or not to award a grant the State. The grantor usually specifies that the State must use the grant proceeds for particular programs, activities or facilities. The State earns grant funds by incurring eligible grant costs and by meeting all matching or other requirements.

Operating grants and capital grants are particular types of grants.

(Also, see the definitions of CAPITAL GRANT, ENTITLEMENT, and OPERATING GRANT.)

**GRANT/ENTITLEMENT RECEIVABLES:** Grant/Entitlement Receivables at June 30 are amounts that grantors owe the State at June 30.

**GRANT/ENTITLEMENT REVENUE:** Grant/Entitlement Revenues are amounts that the State receives from grantors. For this closing package:

- Grant/Entitlement Revenue includes amounts your agency receives to pay indirect costs.

Amounts (other than indirect cost) that your agency distributes to other State sub-funds or agencies are not Grant/Entitlement Revenues.

**GRANT REVENUE:** Grant revenues include:

*Reimbursement Grants:*

- Recognize Grant Revenue when your agency has **both**:
  - Incurred grant costs (including Accounts Payable).
  - Met all related grant requirements (such as matching requirements).
- Record Grant Receivables at June 30 if, at that date, your agency has **both**:
  - Met the revenue recognition criteria above.
  - Not yet received the related reimbursement form the grantor.
- Because the grantor does not pay in advance, there is no Deferred Revenue at June 30 for these grants.

*Cash Advance and Letter-of-Credit Grants:*

- Recognize Grant Revenue when you have **both**:
  - Incurred grant costs (including Accounts Payable).
  - Met all related grant requirements (such as matching requirements).
- Record Grant Receivables at June 30 if, at that date, your agency has **both**:

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- Met the revenue recognition criteria above.
- Not yet received cash from the grantor to cover the related expenditures and/or Accounts Payable.
- Record Deferred Revenue at June 30 if:
  - You received cash on or before June 30, **and**
  - This cash does not yet represent grant expenditures or Accounts Payable at June 30.

## *Entitlements:*

- Recognize Entitlement Revenue when you receive the related cash.
- At June 30, recognize additional Entitlement Revenue and record Entitlement Receivables if:
  - The grantor has awarded you entitlement for a period that began during the fiscal year ended June 30.
  - You have not yet received the entire entitlement amount as of June 30.
- Do not record Deferred Revenue at June 30 for entitlements.

**GRANTOR:** A grantor is an organization that provides grant or entitlement funds to others. Examples of grantors, which provide funds to State agencies, include the Federal government, the Corporation for Public Broadcasting, and the Duke Endowment.

**INFRASTRUCTURE:** An infrastructure asset is a stationary capital asset with a long useful life. Examples of infrastructure assets include roads, bridges, tunnels, water and sewer systems, street lighting and traffic control systems, dams, etc.

**INTANGIBLE ASSETS:** A resource lacking a physical substance (i.e. conservation easement).

**INTERNAL SERVICE FUND:** A proprietary fund defined as a self-balancing set of accounts used to account for the financing of goods and services provided by one department to other state departments or governments.

**INTRA-STATE TRANSFERS OF FIXED ASSETS:** An intra-State transfer occurs when an agency donates fixed assets to another State agency or fund. Agencies and funds that receive donated fixed assets from other agencies or funds record Intra-State Transfers-In. Agencies and funds that donate fixed assets to other agencies or funds record Intra-State Transfers-Out. Intra-State transfers do not include:

- Transfers to Surplus Property

Sales to or purchases from other State agencies or funds. Report these transactions as fixed asset retirements or additions.

**INVENTORY:** Inventory includes all materials, supplies, and other goods held for future use or sale. Inventories are short-lived assets. Agencies normally use or sell inventory items within one year. Land, buildings, construction in progress, and equipment (fixed assets) are not inventory. Report the following types of inventory:

- Materials and supplies your agency plans to issue to other sections within your agency.
- Merchandise for sale to the public, other agencies or other governments.
- Manufacturing inventories of raw materials, work in progress, and finished goods.
- Harvested crops and livestock.

**INVESTMENT:** The closing packages address those investments that the State Treasurer's Office does and does not handle. Such investments may include marketable securities, savings accounts, certificate of deposits, money market certificates or other financial instruments. Report your agency's investments as well as any investments your agency holds as a trustee or agent for others. It is considered a short-term investment if it matures in up to 365 days. Any type of investment that takes longer than 365 days to mature is considered a long-term investment.

**LAND AND IMPROVEMENTS:** Parcels of real estate owned by the agency are land. Land Improvements are long-live attachments to land that increase the land's usefulness or value. Ordinary land maintenance costs are not Land Improvements.



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Examples of Land Improvements include sidewalks, trees and landscaping, tunnels, drains, fences, retaining walls, and curbs.

**LEASE:** Contract that conveys the control of the right to use another entity's nonfinancial asset (the underlying asset, such as land, buildings, vehicles, or equipment) as specified in the contract for a period of time in an exchange or exchange-like transaction.

**LIABILITY:** A liability is an obligation resulting from past transactions that will (or is likely to) result in future payments and/or reductions in future revenues.

**LITIGATION:** Litigation includes disputes or legal contests carried out and resolved through the judicial process. In everyday language, litigation and lawsuits mean nearly the same thing. This closing package concentrates on:

- Litigation matters that, at June 30, will or may result in claims against the State's current or future resources. This includes lawsuits that, at June 30, are:
  - Settled but not yet paid
  - In-progress
  - Threatened
- Settled and in-progress lawsuits of the State against others at June 30 that probably will result in a gain to the State.
- Major changes in lawsuit status that occur in the six months after June 30 (July 1 through December 31).

**LOANS RECEIVABLE:** Outstanding balances at June 30 on loans that the State made to non-State parties are loans receivable. Loans receivable include balances for which the State holds collateral or security.

(Also, see the definitions of **DUE FROM OTHER GOVERNMENTS** and **NOTES RECEIVABLE**.)

**LONG-TERM INVESTMENT:** If the maturity of an investment (such as a certificate of deposit) matures in 366 or more days, it is a long-term investment.

**LOSS CONTINGENCY:** Loss contingencies are situations involving uncertainty as to possible loss that will be resolved when certain events occur or fail to occur.

(Also, see the definition of **MISCELLANEOUS LOSS CONTINGENCY**.)

**LOSS LIABILITY:** Known losses at June 30 for which the State has an obligation to make future payments are loss liabilities.

(Also, see the definition of **MISCELLANEOUS LOSS LIABILITY**.)

**MEASURABLE:** An item is measurable if you either:

- Know the exact amount (because the transaction is complete), **or**
- Have enough information to estimate the amount that you will receive.

**MERCHANDISE INVENTORY:** This inventory category includes items you purchase for resale to others.

**MISCELLANEOUS ACCOUNTS RECEIVABLE:** Miscellaneous Accounts Receivable are measurable miscellaneous revenue that parties outside State government owe your agency at June 30. As of June 30, you either:

- Have billed these non-State parties already.
- Know that these parties owe you money (even though you have not yet billed them). (Also, see the definitions of **MEASURABLE** and **MISCELLANEOUS REVENUES**.)



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**MISCELLANEOUS LOSS CONTINGENCY:** Loss contingencies are situations involving uncertainty as to possible loss. The uncertainty will be resolved when certain events occur or fail to occur. Loss contingencies may result from litigation, claims, audit disallowances, threatened property loss, and uncollectible receivables. An example of a miscellaneous loss contingency is the potential loss resulting from guarantees of others' debts (loan guarantee programs).

**MISCELLANEOUS LOSS LIABILITY:** Loss situations that represent known liabilities at June 30 are loss liabilities. Loss liabilities may result from litigation, claims, and grant/entitlement disallowances. Also, some losses (such as property destruction and uncollectible receivables) cause decreases in assets rather than increases in liabilities. An example of a miscellaneous loss liability is a known loss resulting from guarantees of others' debts.

**MISCELLANEOUS REVENUES:** Miscellaneous revenues include all AFIS revenues **EXCEPT:**

- Tax revenues
- Grant/entitlement revenues
- Bond/note proceeds
- Interest and other investment income
  - The State Treasurer's Office will provide all data relating to these revenues or investments held by its office.
- State Appropriations and other revenues you receive from another State agency or another AFIS sub-fund
  - Miscellaneous Revenues include only amounts you receive from NON-State parties.

Miscellaneous revenues **INCLUDE**, for example:

- License, fee and permit revenue
- Charges for goods and services
- Fine, penalty and forfeiture revenue
- Contributions and awards revenue
- Interest Revenue on investments not held by State Treasurer's Office

For closing package purposes, Miscellaneous Revenue **also includes** miscellaneous accounts receivable, allowances for uncollectible accounts receivable, deferred revenue, and related revenue for the year.

**MODIFIED ACCRUAL BASIS:** GAAP requires that the State use the modified accrual basis of accounting for governmental funds.

The modified accrual basis of accounting requires us to record revenues in the fiscal year in which they become both *measurable* and *available*.

A revenue is measurable if you either:

- Know the exact amount (because the transaction is complete)
- Have enough information available to estimate the revenue that you will receive

Revenue is available at June 30 if you will collect it either:

- On or before June 30
- Soon enough after June 30 to pay liabilities that exist at June 30

Billable miscellaneous revenue that we have not yet collected from non-State parties is Miscellaneous Accounts Receivable.

The modified accrual basis requires the State to record deferred revenue if we have Miscellaneous Accounts Receivable or Taxes Receivable that are measurable but not available.

The modified accrual basis requires that deferred revenue be reported for:

- Taxes
  - We collect in advance of the fiscal year to which the taxes apply

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- That are measurable but not available at June 30
- Miscellaneous Revenue
  - If we have Miscellaneous Accounts Receivable that is measurable but not available

**NOTES RECEIVABLE:** Notes Receivable are a type of Loans Receivable. In certain cases, the State may lend money to a non-State party under a note. A note is a written document in which a borrower promises to repay money:

- To the State or to a party that the State indicates
- On demand at a particular future time

Amounts that borrowers have not yet repaid at June 30 on such notes are Notes Receivable.

**OPERATING GRANT:** Operating grants include:

- Grants that you may use only to finance operations
- Grants that you may use either to finance operations or to purchase/construct fixed assets. (Also, see the definitions of CAPITAL GRANT and GRANT.)

**OPERATING TRANSFER:** An operating transfer is a reduction in expendable resources but is not classified as an expenditure. An operating transfer is a legally authorized transfer between funds in which one fund is responsible for the initial receipt of funds, and another fund is responsible for the actual disbursement. In an operating transfer the disbursing fund records the transaction as “Other Financing Uses” of resources and not as an operating expenditure. In a similar manner, the fund receiving the transfer does not record the receipts as revenue but rather as “Other Financing Sources” of funds. Examples include:

- Transfers indicated in an appropriation bill
- Transfers from a revenue-collecting fund to a fund where only the disbursement can be made or is designed to be made.

**“PASSED-THROUGH” FUNDS:** To say that grant/entitlement funds were “passed-through” means that one State agency distributed them to other State or non-State organizations (such as municipalities and counties).

**PERIODIC INVENTORY SYSTEM:** Under a periodic inventory system, an agency updates its Inventory account only periodically - perhaps just once each year. At that time, the agency would:

- Take a physical count of inventory on hand
- Add the value of this inventory on hand to the Inventory account
- Reverse the entry it made in the Inventory account at the end of the fiscal year

**PERMANENT FUND:** A governmental fund defined as a self-balancing set of accounts used to account for resources where only earnings, and not principal, may be used to support government programs.

**PERPETUAL INVENTORY SYSTEM:** Under a perpetual inventory system, an agency updates its record of inventory quantities on hand whenever it purchases or issues inventory items. The agency may even update the value of its Inventory account at the same time. Under a perpetual system, the agency would:

- Add quantities (and/or the associated dollar values) to its perpetual records whenever it purchases inventory items
- Subtract quantities (and/or the associated dollar values) from its perpetual records whenever it issues or sells inventory items
- Periodically take a physical count of inventory on hand
- Adjust both its perpetual records and its Inventory accounts balance to reflect the results of the physical count

**PHYSICAL COUNT:** “Taking a physical count” means physically counting and writing down the quantities of all inventory items actually on hand. The Inventory Closing Package focuses on taking a physical count of inventory on hand at the end of the fiscal year. Retain the Inventory Sheets you use when you take a physical count. These sheets document the physical existence of the balances in your Inventory account.

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**POLLUTION REMEDIATION OBLIGATIONS:** An obligation to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. For example, obligations to clean up spills of hazardous wastes or hazardous substances and obligations to remove contamination such as asbestos are pollution remediation obligations.

**PROBABLE:** A future event is probable if the event is likely to occur.

**PUBLIC-PRIVATE and PUBLIC-PUBLIC PARTNERSHIPS (P3s):** P3s are arrangements in which the government (the transferor) contracts with an operator (governmental or non-governmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset for a period of time in an exchange or exchange-like transaction. For State of Arizona reporting, P3s between State agencies are excluded.

**QUASI-EXTERNAL TRANSACTION:** A quasi-external transaction is a transaction between funds that are part of the same reporting entity; the nature of the exchange or transaction suggests the existence of more-or-less normal buyer/seller relationships. Examples include:

- Internal service billings to other departments for services rendered such as billings from the Motor Pool, Telecommunication, Risk Management or General Services.
- Routine employer contributions from General Fund to a pension trust fund.

**REASONABLY CERTAIN:** A future event is reasonably certain if the chance of its occurrence is greater than probable.

**REASONABLY POSSIBLE:** A future event is reasonably possible if the chance of its occurrence is greater than remote but less than probable.

**RECLASSIFICATIONS OF FUND FIXED ASSETS:** Sometimes agencies move costs from one fixed asset category to another. For example, agencies should move Construction in Progress costs to other fixed asset categories when construction projects are substantially complete.

**REFUNDS RECEIVABLE:** Refunds receivable include all amounts that non-State parties owe your agency at June 30 relating to past State overpayments. The State may have overpaid during the current year or during some prior year. Examples include:

- Refunds of Medicaid overpayments from non-State service providers.
- Refunds that local entities owe the State as result of:
  - Cost disallowances
  - Failure to spend State grant amounts within the grant award period
- Refunds due from vendors or other non-State parties

**REIMBURSEMENT:** Reimbursement is an expenditure (or expense) that is the legal responsibility of one fund that may be paid for by another fund, with the understanding that the latter fund will be reimbursed.

**RELATED PARTY:** Parties are related if one party can exercise control or significant influence over the management and/or operating policies of another party, to the extent that one of the parties may be prevented from fully pursuing its own separate interests.

**RELIEF BILL:** ARS §35-191C provides the statutory authority for the submission to the legislature claims that are more than one fiscal year old, but less than four fiscal years old. Only appropriated funds are eligible for payment under the Relief Bill. There must be a sufficient balance in the reverted appropriation for the fiscal year of the claim, and it must be approved by the legislature for payment. Procedures for administrative adjustments and Relief Bill are found in the Arizona State Accounting Manual.

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**REMOTE:** A future event is remote if the event has only a slight chance of occurring.

**RESERVE FOR NONCURRENT LOAN/NOTE RECEIVABLES:** The Reserve for Non-current Loan/Note Receivables is a fund balance account. GAAP requires that we use this account to report the non-current portion of long-term loans receivable. This shows financial statement users that these amounts do not represent available spendable resources.

**RESERVED:** Indicates the fund balance is either not available for expenditures or is legally segregated for future use. Examples include:

- Reserved for Inventories
- Reserved for Encumbrances.

**RESIDUAL EQUITY TRANSFERS:** Nonrecurring or non-routine transfer of equity between funds. Residual equity transfers do not represent expenditures of the transferring fund and therefore should be presented as part of the analysis of the change in the funds balance. For example: the transfer of a capital contribution by the General Fund to an Internal Service Fund.

**SALVAGE VALUE:** Scrap value of a depreciable asset is its estimated fair value at the end of its useful life.

**SHORT-TERM INVESTMENT:** Any investments that matures in up to 365 days. Examples include, but are not limited to:

- Certificates of deposit
- Repurchase agreements
- U.S. Treasury notes

**SICK LEAVE:** 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.

**SPECIAL REVENUE FUND:** A governmental fund defined as a self-balancing set of accounts used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**STRAIGHT-LINE DEPRECIATION METHOD:** This is a method of determining the amount of depreciation to record in a specific year for a particular fixed asset. To use this method:

- Determine the asset's estimated useful life in years.
- Determine the difference between:
  - The asset's book value at acquisition
  - The asset's expected scrap value (if any) at the end of its useful life
- Divide this difference by the years of estimated useful life.
- Record this amount of depreciation during each fiscal year of the asset's estimated useful life.

**SUBSCRIPTION-BASED INFORMATION TECHNOLOGY AGREEMENTS (SBITAs):** A contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

**SUBSEQUENT EVENT:** Subsequent events are events or transactions that **both:**

- Occur after June 30 but before the State issues its financial statements

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- Have a material effect on the statements and/or the auditor's report Governments must disclose subsequent events in their financial statements.

**SUBSEQUENT PERIOD:** The subsequent period is the time after June 30 but before the State issues its financial statements. The State plans to issue its financial statements by December 31. Governments must disclose on their financial statements any material events that occur during the subsequent period.

**SUPPLY INVENTORY:** This inventory category includes items held for future use and manufacturing inventories.

**SUSCEPTIBLE TO ACCRUAL:** This term relates only to the modified accrual basis of accounting. Revenue is susceptible to accrual only if it is both measurable and available to finance current expenditures of the fund.

**TEST COUNT:** Agencies may conduct test counts to determine whether a perpetual inventory system is operating as it should. To conduct a test count:

- Randomly select some items
- Count the quantity of these items actually on hand
- Compare the counted quantities with the quantities recorded in the perpetual inventory system
- Investigate any differences between the perpetual inventory records and the physical count
- Determine whether the differences indicate existence of control weaknesses. If so, correct the weaknesses.

**13<sup>TH</sup> MONTH CLAIM:** Goods or services received prior to the close of the fiscal year may be paid for during the month immediately following the end of such fiscal year, under ARS §35-190. Procedures for the 13<sup>th</sup> month processing are issued by GAO prior to the close of each fiscal year.

**TRUST AND CUSTODIAL FUNDS:** Fiduciary funds defined as self-balancing sets of accounts used to account for assets held by the State in a trustee capacity for individuals, private organizations, other governments, and/or other funds or as an agent for individuals, private organizations, or other governments.

**UNEARNED REVENUE:** Unearned revenue is revenue, which has been collected before it is earned. GAAP requires that we record deferred revenue if at June 30 we **either:**

- Have collected material revenue in advance of the fiscal year to which it applies.
- Have Miscellaneous Accounts Receivable or Taxes Receivable in governmental funds that are measurable but not yet available.
- Have grant funds on hand that, as yet, represent neither grant expenditures nor Accounts Payable. Unearned Revenue is a liability account.