ARIZONA
COMMERCE
AUTHORITY

Accounting Policies

Section

Policy .... Policy Ref.

General Policies

Internal Control Summary 1-01
Delegation of Authority 1-02
Account Reconciliation and Documentation 1-03
Information Access and Records Management 1-04
Chart of Accounts 1-05
General Ledger Close 1-06
Financial Reporting 1-07

Accounting Policies

Fixed Asset and Capital Expenditure 2-01
Capitalized Software for Internal Use 2-02
Leases 2-03
Long Lived Asset Impairment 2-04
Prepaids 2-05
Purchases and Account Payable 2-06
Payroll and related Processing 2-07
Expense Accruals 2-08
Revenue Recognition 2-09
Allowance for Doubtful Accounts 2-10
Taxes 2-11
Federal Financial Assistance 2-12

Treasury Policies

Treasury 3-01
Bank Account Administration 3-02
Investments 3-03

Purpose

The purpose of this policy is to explain the fundamentals of internal controls and to explain the responsibilities of employees of Arizona Commerce Authority ("ACA").

Overview

This policy provides the following:

1. General Internal Control information;
2. Control Responsibility;
3. Control Classification; and
4. Segregation of Duties.

ACA is dedicated to maintaining an effective control environment. ACA's control environment provides an atmosphere in which employees, contractors, and consultants can conduct their work and carry out their control responsibilities. It serves as the foundation for the other components in the internal control cycle. The key component in having an efficient and operational control environment at ACA is the awareness and participation of all individuals employed at ACA.

ACA is dedicated to high standards for its internal control system throughout its worldwide operations.

ACA recognizes that its people are critical to its long-term success. Every effort is made to recruit talented and competent people, to develop people, and to provide continual professional education.

General

Internal controls are accounting controls and procedures implemented by management and personnel to provide reasonable assurance that:

- ❑ Transactions are properly authorized, recorded, and reported;
- ❑ Financial and other management information is accurate and reliable in all material respects;
- ❑ Company assets are protected against loss or unauthorized use; and
- ❑ Company resources are used effectively and efficiently in the process of achieving long-term growth in the value of ACA.

Internal controls also help ensure compliance with ACA policies, practices, and procedures, as well as with local laws and regulations. Further, internal controls assist ACA to achieve its business and objectives.

A system of internal accounting controls must be adequate to provide reasonable assurance that:

- ❑ Transactions are executed in accordance with management's general or specific authorization;
- ❑ Transactions are recorded as needed to permit preparation of financial statements which conform with State Laws and U.S. GAAP or any other criteria applicable to those statements and to maintain accountability for assets;
- ❑ Access to assets is permitted only in accordance with management's general or specific authorization; and

- The asset values in accounting records are compared with the physical assets at reasonable intervals, and appropriate action is taken with respect to any differences (in accordance with State Laws and U.S. GAAP).

Control Responsibility

ACA's controls are the responsibility of all employees of ACA. Management has the responsibility to assist in the identification and documentation of the key controls. Although the primary control activities are identified and performed by the individual process owners. Control activities are the actions performed to execute the controls and the method of evidencing the performance of the control.

The CFO has the authority to adopt more detailed procedures that are consistent with the accounting policies to maintain a strong control environment.

Control Classifications

Controls are classified into different categories. All controls are classified as preventative or detective and each control is identified as manual or systematic. In general preventative controls and systematic controls are preferred as long as they are considered the most cost effective reason.

Preventive Controls

Preventive controls are those that are intended to prevent accounting errors or financial risks **before** they occur. Examples include:

- Approval of journal vouchers;
- Three-way match of invoice with purchase order and receiving report before vendor payment; and
- Program change control over computer accounting applications.

Detective Controls

Detective controls are those that are intended to detect accounting errors or financial risks **after** they occur. Examples include:

- Analysis of balance sheet accounts;
- Computer search of paid history file for duplicate vendor payments;
- Physical inventory and reconciliation of book-to-physical amounts; and
- Bank reconciliations.

Systematic Controls

Systematic controls are those that are created within the system and are performed without an employee performing the task. Examples include:

- System is configured to reject the entry of duplicate fields (invoice #, check number);
- System is configured so only authorized individuals have access;
- Systems are configured so data is transferred from one system to another;
- System is configured so that the same individual cannot create and approve an entry; and
- System is configured to prevent entries from posting in a month for which the posting period is closed.

Manual Controls

Manual controls are those that require actions to be performed by the employee per occurrence of the control. Examples include:

- ❑ Approval of journal vouchers;
- ❑ Three-way match of invoice with purchase order and receiving report before vendor payment; and
- ❑ Account Reconciliations.

Segregation of Duties

Segregation of duties is the basic foundation for an internal control system. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Two key benefits of segregation of duties are:

- ❑ Fraud cannot be easily committed and covered up with involving the collusion of two or more individuals; and
- ❑ The likelihood of errors going undetected is significantly reduced.

At the most basic level, segregation of duties means that no single individual should have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure all duties are compatible.

If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities, they have generally been assigned or allowed access to incompatible duties or responsibilities. Some examples of incompatible duties are:

An Employee who…	***Should not…***
❑ Prepares a document	❑ Approve that same document
❑ Handles cash receipts	❑ Endorse checks ❑ Receive deposit slips or corrections from bank
❑ Prepares bank deposits	❑ Receive deposit slips or corrections from bank ❑ Verify cash receipts ❑ Perform audit function
❑ Distributes payroll checks	❑ Prepare payroll input

There are four general categories of duties or responsibilities which are examined when segregation of duties is discussed:

- ❑ Authorization;
- ❑ Custody/Access;
- ❑ Record-keeping; and

- Reconciliation.

In an ideal setting, different employees would perform each of these four major functions.
No one person should have control of two or more of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties, especially when dealing with cash, negotiable checks and inventories.

Authorization (See the Delegation of Authority Policy)

Authorization is the process of reviewing and approving transactions or operations. Some examples are:

- Approving purchase requisitions or purchase orders;
- Approving time sheets, payroll certifications, leave requests, and cumulative leave records; and
- Approving change orders, computer system design, or programming changes.

Custody / Access

Custody is the process of having access to, or control over, any physical asset such as cash, checks, equipment, supplies or materials. Some examples are:

- Access to any funds through the collection of funds or processing of payments;
- Access to safes, lock boxes, file cabinets or other places where money, checks or other assets are stored;
- Receiving any goods or services; and
- Handling or distributing paychecks/advices, limited purchase checks.

Record-Keeping (See the Information Access and Records Management Policy)

Record-keeping is the process of creating and maintaining records of revenues, expenditures, inventories, and personnel transactions. These may be manual records or records maintained in automated computer systems. Some examples are:

- Preparing purchase requisitions, payroll certifications, and leave records;

Reconciliation (See Account Reconciliation Policy)

Reconciliation is the process of verifying or recording of transactions to ensure that all transactions are valid, properly authorized and, properly recorded on a timely basis. This includes following-up on any differences or discrepancies identified. Examples are:

- Comparing collections to deposits;
- Performing surprise counts of funds;
- Comparing payroll certifications to payroll summaries; and
- Reconciling revenue, expenditures and payroll transactions to management reports.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY *Advancing Arizona's Economy*	**Policy No.: 1 – 02**
	Delegation of Authority
	Effective: July 1, 2011

Purpose

The purpose of this policy is to define the operation limits of authority designated to specified positions of responsibility within Arizona Commerce Authority ("ACA") and to establish the types and maximum amounts of obligations that may be approved by individuals.

This policy does not set the limits of authority for giving grants to qualified business. See the Grant Delegation of Authority policy.

Overview

This policy provides the following:

1. General guidance defining delegation of authority;
2. Temporary delegation of authority; and
3. The Delegation of Authority Matrix.

General

The delegation of authority is used to determine the level of approvals required for significant business transactions. The primary purpose of ACA's delegation of authority is to ensure that all significant transactions are properly authorized and recorded, and to ensure ACA's assets are safeguarded.

Temporary Delegation

Temporary delegation of responsibilities can be granted by the COO if an individual is taking an extended period of time off or if the individual severs/discontinues employment with ACA.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY *Advancing Arizona's Economy*	**Policy No.: 1 – 03**
	Account Reconciliations and Documentation
	Effective: July 1, 2011

Purpose

The account reconciliation policy is established to ensure the Arizona Commerce Authority ("ACA") is performing reconciliations for all key accounts to ensure the amounts recorded in the General Ledger are fairly stated.

Overview

The policy contains the following:

1. General overview of reconciliation requirement;
2. Reconciliation Frequency Listing; and
3. Key terminology.

General

Account reconciliations must be prepared by accounting and must be independently approved by the CFO with the frequencies defined herein:

- The formal documented reconciliation for all accounts must be completed with all supporting documentation attached (or available) within 15 days after the month end close. All support should be descriptive enough to reperform the reconciliation and agree to the amount posted in the General Ledger.
- Timely approval is required for all reconciliations that are prepared. Documentation of approval for the account reconciliation must be noted by the signature of the reviewer and the date reviewed. If there are a large number of reconciliations, a listing could be compiled with the preparer and approver signing and dating the cover sheet.

Any unreconciled variances must be identified, resolved, and recorded in the General Ledger on a timely basis. In no case, should a reconciling item age beyond **60 days**. The responsibility, due date, and required action must be specified for each aged item. All issues identified in account analyses must be promptly recorded and resolved by performing a root cause analysis to understand the variance and why it occurred to prevent further occurrences.

Accounts to be Reconciled

All accounts should be supported by a formal account analysis reconciled to any relating sub-ledger and/or Excel schedules on a **monthly basis.** Each formal reconciliation must be independently reviewed, documented and retained in accordance with the Information Access and Records Management Policy.

Key Terminology

- **Account Reconciliation** – The process to balance General Ledger amounts to supporting sub-ledger detail and documentation for accounts including the detail of any discrepancies.
- **Readily Available** – Documents that are less than one year old should be able to be produced within a five business days.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 1 – 04**
	Information Access and Records Management
	Effective: July 1, 2011

Purpose

The purpose of this policy is to establish the general guidelines for Arizona Commerce Authority (ACA) to follow in regards to the access to information and document retention. The document retention policy is developed to ensure documents are retained for the period required by all laws and business requirements and to dispose of the records when permitted by applicable laws and regulations.

Overview

This policy establishes the general policy guidelines for the following:

1. Information Access and Handling Records
2. Detailed Document Retention Periods

The goal of records management policies is to provide the following benefits:

- ❑ Faster retrieval of information;
- ❑ Fewer lost or misplaced records;
- ❑ Compliance with legal, fiscal and administrative requirements;
- ❑ Protection for vital and historical records; and
- ❑ Space-saving for physical and electronic document storage.

General

This policy applies to all computer records, emails, documents, papers, correspondence, and business records of ACA in whatever form or medium, electronic or physical, and wherever located. All Company employees are required to follow this policy for all Company documents and electronic records within their possession or control, whether active files or in storage, and including any such records in "personal" files. ACA policy on email requires that incoming and outgoing email be removed from the server within 180 days. Email to be retained for a longer period must be moved to a file folder on ACA your desktop or a personal folder in the e-mail system.

It is the responsibility of the employees to be familiar with this policy and to assure that records are kept safe for the proper time. All retention periods for ACA must start on July 1 of the year after the document is no longer current; for example if the document is dated 3/15/2010 the retention period would start on July 1, 2011.

The standard document retention periods are detailed at the conclusion of this policy.

Information Access and Handling Records

1. Hard-copy records should be arranged neatly in file cabinets, as close as possible to employees who use them on a regular basis.
2. Hard copies of records should be filed in alphabetical order except for those control records which must be filed in numeric order (such as shipping copies of bills of lading, invoices and checks).
3. Sensitive records, such as blank checks, personnel information, and payroll should be stored in a secured area or locked file cabinet to prevent unauthorized access. In addition, electronic storage of sensitive records should be considered, to prevent unauthorized access. Similarly, persons responsible for the handling of such sensitive information should retain tape/CD back-ups in secured or locked areas or cabinets.
4. Non current hard-copy records which are no longer needed on a regular basis should be stored in file boxes in secured storage areas, with clearly marked contents and a destruction date.
5. Hard-copy storage areas and computer/electronic records should be reviewed at least annually. All records, including excess records, held past their specified retention period, including back-up disks or tapes, should properly be destroyed.
6. Prior to document destruction, documented approval from the Chief Operating Officer should be obtained evidencing what types of documents are being destroyed and referencing this policy and the dates the documents were destroyed.
7. Prior to routine destruction, General Counsel needs to be contacted to determine if any records to be destroyed are affected by a pending legal action, and the Chief Financial Officer to determine if any records are affected by a pending tax audit. In the case where actions are pending, the records, disks, and tapes must be identified and retained until the General Counsel and Chief Financial Officer agrees that the identified records may be destroyed.
8. Files, disks and tapes of related records, such as personnel records, that contain documents of varying retention periods that cannot be separated should be retained for the longest retention period applicable for the set. Component records, such as W-4's, may be destroyed based on their retention periods.
9. Proper disposal of hard-copy records may include shredding. Sensitive records should be shredded or sufficiently cut-up so they are not useful to outsiders.
10. Where suitable recycling facilities exist, non-sensitive records should be recycled.
11. Reusable media, such as magnetic disk or tape, should be erased or reused in accordance with standard procedures for these media.

Document Retention Periods

Accounting and Finance

Item #	Records Series	Retention (Yrs.)*	Remarks
1.	Budget Request Records (including work papers, spread sheets, calculations and other related records for agency and subordinate organization units)	3	After fiscal year submitted or after administrative or reference value has been served, whichever is later
2.	Budget approved and appropriated (agency copy)	3	After fiscal year covered by budget or after administrative or reference value has been served, whichever is later
3.	Accounts Payable and Receivable Records (including claims, travel claims, purchase orders, receiving documents, invoices, receipts, insufficient funds (NSF) and returned check records, credit card authorization records and other related records)		
	a. Official copy	5	After fiscal year created or received
	b. All other copies	-	delete or destroy between 1 and 5 years after fiscal year created or received
4.	Employee Time and Leave Records		
	a. Official copy	3	After fiscal year created or received
	b. All other copies	-	delete or destroy between I and 3 years after fiscal year created or received

Item #	**Records Series**	**Retention (Yrs.)***	**Remarks**
5.	Employee Personnel/Payroll Data Add – Change – Delete Records (finance copy of Personnel Action Forms and including records documenting contributions to savings account, garnishments, saving bond purchases and other related records)	3	After fiscal year superseded or obsolete
6.	Payroll Records (including all remuneration made to employees and all Social Security contributions and adjustments)	4	After fiscal year contributions were due or paid
7.	Payroll Deduction Records	3	After fiscal year superseded or obsolete
8.	Deposits with Treasurer	3	After fiscal year deposit made
9.	Contracts		
	a. Official copy	6	After fiscal year fulfilled, cancelled or revoked
	b. All other copies	-	After administrative value has been served but no more than 6 years after fulfilled, cancelled or revoked
10.	Capital Equipment Inventory	3	After fiscal year superseded or obsolete
11.	Financial Audit Reports (agency copy including audit work papers)	3	After fiscal year audit completed

Item #	Records Series	Retention (Yrs.)*	Remarks
12.	Grant Records a. Administration and Financial Records	3	After fiscal year quarterly, annual or final expenditure report submitted and approved or after funding agency requirements are met, whichever is longer
	b. Programmatic Records i. Historically Significant Program Records ii. All Other Program Records	Permanent 3	Preserve pursuant to ARS §39-101 After fiscal year quarterly, annual or final expenditure report submitted and approved or after funding agency requirements are met, whichever is longer
	c. Unsuccessful Grant Application Records	1	After rejected or withdrawn or after administrative or reference value has been served, whichever is later
	d. Other copies	-	After administrative value has been served but do not keep longer than after funding agency requirements are met for record copies
13.	Internal Revenue Service (IRS) Forms and Reports (including W-2's and other related records)	4	After superseded or obsolete or 4 years after fiscal year contributions were due or paid
14.	Capital Asset Records (including invoices, receipts, contracts,	3	After fiscal year of disposal of property or 6

Item #	Records Series	Retention (Yrs.)*	Remarks
	leases and other related records for capital expenses, including land, building and equipment)		years after property acquired, whichever is later
15.	Banking Records (including bank statements, warrant registers, reconciliation records, journals, ledgers, transfers, deposits, and other related records but not cancelled checks)	10	After fiscal year created or received (per Arizona Department of Revenue requirement)
16.	Cancelled Checks	5	After fiscal year created or received
17.	Unclaimed Property Records a. Report submitted to Arizona Department of Revenue (ADOR) per ARS §44-323	5	After fiscal year created or received
	b. All other records	10	After fiscal year created or received
18.	Financial Reports a. Annual Financial Report (if not included in agency annual report)	Permanent	Preserve pursuant to ARS §39-101
	b. All other reports including weekly, monthly and ad hoc reports	5	After fiscal year created or received or after administrative or reference value has been served, whichever is later
19.	Surplus Property Records	3	After property sent to Surplus Property office

*In the event of any conflict between the retention periods indicated here and the retention periods prescribed by State of Arizona laws and policy, such site state laws and policies shall govern.

Policy Owner:____

Approved By: ____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 1 – 05**
	Chart of Accounts
	Effective: July 1, 2011

Purpose

The purpose of this policy is to provide a clear understanding of the Chart of Accounts and the key controls related to it for Arizona Commerce Authority ("ACA").

Overview

This policy contains a general description of the chart of accounts and an explanation of the key control areas for Chart of Account Maintenance.

General

The chart of accounts is a listing, or index, of all the detailed accounts used by ACA, Inc. including all assets, liabilities, income, and expenses. It is the foundation for the financial reporting process, as the financial reports become a by-product of the chart of accounts. A number is assigned to each account to facilitate appropriate bookkeeping.

Account Additions/Changes

When an additional account or a modification to the Chart of Accounts is made, accounting must complete the "*Chart of Accounts Maintenance Form*" and submit it to the CFO and COO for approval. The approved form is forwarded to the IT Manager who will create or modify the account in accordance with the approved form.

Policy Owner:____

Approved By:____

	Policy No.: 1 – 06
ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	*General Ledger Close*
	Effective: July 1, 2011

Purpose

The purpose of this policy is to establish the general guidelines for Arizona Commerce Authority ("ACA") to follow in regards to General Ledger close process.

Overview

This policy provides a general understanding of the General Ledger, the financial reporting periods, and guidelines for the following:

1. Closing schedule;
   - ❑ Month-end
   - ❑ Quarter-end
   - ❑ Year-end

General

ACA's fiscal year begins July 1 and ends June 30. ACA follows a standard monthly accounting calendar with quarter-end periods of September 30, December 31, March 31 and year-end of June 30.

The General Ledger system for ACA is maintained in SAGE MIP. In addition to the monthly close requirements ACA has additional reporting requirements for the quarter-end periods.

Closing Schedule

ACA relies on the calendar month-end, quarter-end and an annual closing schedule; to plan and manage ACA's financial reporting. Adherence to ACA's closing schedule is critical, as its purpose is to ensure timely and accurate financial processing and reporting.

Month Close

Prior to closing the systems, ACA must ensure that all intercompany/interfund amounts are being recorded in the same period for all funds in the transaction. In addition, any expense transfers which occur should be approved by the CFO.

The accounting system can be closed once the "**Monthly Close Checklist**" is completed.

Quarter/Annual Close

At each of the quarter-end and year-end, the quantity of procedures that must be performed are greater then those performed on the regular Month Close, as identified above. These additional procedures are noted on the "**Quarterly Close Checklist**" and the **"Annual Close Checklist.**"

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY *Advancing Arizona's Economy*	**Policy No.: 1 – 07**
	Financial Reporting
	Effective: July 1, 2011

Purpose

Arizona Commerce Authority's ("ACA") policy is to prepare the consolidated financial statements in accordance with US GAAP [1] and state law for the purpose of reporting to the General Accounting Office, the Board of Directors and other interested parties.

Overview

This policy establishes the general policy guidelines for the following:

- General
- Objective of Financial Reporting;
- Audits;
- Accounting Research; and
- Key Terminology

General

ACA must comply with the Single Audit Act and provide all the necessary financial information to the General Accounting Office and Board of Directors on a quarterly basis. Annually, ACA must submit the required financial information to the General Accounting Office for the preparation of the Comprehensive Annual Financial Report ("CAFR") and the Annual Report.

For financial reporting to the federal government see the Federal Financial Assistance policy.

Objective of Financial Reporting

There are three major objectives of financial reporting:

1) Financial reporting should assist in fulfilling ACA's duty to be publicly accountable and should enable users to assess that accountability.

   - Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services.
   - Financial reporting should demonstrate whether resources were obtained and used in accordance with ACA's adopted budget; it should also demonstrate compliance with other finance-related legal or contractual requirements.
   - Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the ACA.

2) Financial reporting should assist users in evaluating the operating results of the entity for the year.

[1] Codification of Governmental Accounting and Financial Reporting Standards, Governmental Accounting Standards Board. Sec 1200.101

- Financial reporting should provide information about sources and uses of financial resources.
- Financial reporting should provide information about how ACA financed its activities and met its cash requirements.
- Financial reporting should provide information necessary to determine whether the ACA's financial position improved or deteriorated as a result of the year's operations.

3) Financial reporting should assist users in assessing the level of services that can be provided by the entity and its ability to meet its obligations as they become due.
   - Financial reporting should provide information about the financial position and condition of the ACA.
   - Financial reporting should provide information about ACA's physical and nonfinancial resources having useful lives that extend beyond the current year.
   - Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.

Audits

An audit of the financial statements shall be coordinated with the reporting deadlines as required by state statute and sufficient time shall be provided to the auditors to complete the audit of both the Single Audit and US GAAP.

Once the audited financial statements are complete and an opinion has been received from the auditor, the financial statements shall be disseminated to the appropriate parties as required by state statute and as necessary for the operations of the business.

Accounting Research

ACA's policy is to research new or updated accounting pronouncements and state laws resulting from internal accounting or operational discussions. Significant conclusions reached are documented, approved and communicated to the affected groups, in a timely manner.

Key Terminology

- ❑ **Comprehensive Annual Financial Report ("CAFR")** – Financial statements that encompasses all fund and account groups.

Policy Owner: ____

Approved By: ______________________________________

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 01**
	Fixed Assets and Capital Expenditures
	Effective: July 1, 2011

Purpose

The purpose of this Fixed Assets Policy is to provide direction to account for purchases and subsequent accounting for fixed assets in accordance with accounting principles generally accepted in the United States.

Overview

This policy establishes the general policy guidelines for the following:

1. Minimum Capitalization Level
2. CER Requirements
3. Recording Costs of Fixed Assets
   - Internally Developed Software/Cost of Website Development
4. Costs Subsequent to Acquisition
5. Depreciation Calculation
6. Transfer Assets to Others
7. Asset Disposals
8. Damaged, Lost, or Stolen Assets
9. Physical Inventory of Assets

The goal of the Fixed Assets Policy is to ensure that:

- Purchases of capital assets are properly documented and authorized;
- The accounting treatment for capital assets is standardized and consistent;
- Fixed asset records are accurate and maintained in accordance with GASB and U.S. GAAP; and
- Internal controls are sufficient to safeguard Company assets.

General

It is ACA's general policy not to lease equipment. To the extent any lease agreement is entered into, ACA's leasing policy must be adhered to.

Minimum Capitalization Level

Capital assets include all expenditures for tangible assets used actively in business operations and which provide an economic benefit for a period exceeding one fiscal year. Individual purchases of $5,000 or more for all other purchases will be capitalized. These purchases must be approved in accordance with the Delegation of Authority Matrix for purchases and only require Capital Expenditure Request approval if they meet the requirements defined in the following section. All purchases less, than the threshold, will be charged as an expense in the period incurred.

Capital Expenditure Request Requirements

Proper authorization and review is required for all capital expenditures to ensure compliance with budget guidelines and sound investment decision-making. All capital expenditure requests must be approved in accordance with Delegation of Authority Matrix.

Recorded Cost of Fixed Assets

The capitalized cost basis of the asset purchased is comprised of all reasonable costs involved in bringing the asset to the buyer and incurred prior to the asset being placed into service.

Examples include:

- Purchase price net of rebates, discounts and the value of trade-in;
- Sales tax;
- Delivery and freight;
- Installation, setup and breaking-in costs, external costs, significant internal costs (direct payroll and estimated related benefit costs); and
- Any other direct costs that may be incurred in acquiring the asset.

Intangibles/ Capitalized Software – Internal Use

See Intangibles/ Capitalized Software – Internal Use policy

Cost Subsequent to Acquisition

Costs that are incurred related to a fixed asset subsequent to its acquisition and capitalization must be capitalized or expensed. General repair and maintenance costs that are required to maintain the asset in proper working order must be recorded as a period expense. Whereas expenditures related to improving the asset are capitalized. All fixed asset repairs and maintenance that extend the useful life or increase the value of the asset should be capitalized and depreciated over the new extended life or the remaining life of the asset.

The following two factors are used to determine if subsequent costs are to be capitalized:

- Does it increase the useful life of the asset
- Does it add value to the asset

Examples to be capitalized:	Examples to expensed in the period incurred:
❑ Replacing floors, thereby prolonging its life ❑ Replacing a roof, thereby substantially prolonging its life ❑ Reconditioning machinery, thereby extending its life	❑ Basic maintenance ❑ Repairing loose or damaged shingles ❑ Replacing broken glass ❑ Painting and decorating ❑ Seal coating a parking lot ❑ Making temporary repairs to last less than one year ❑ Making minor repairs to fully depreciated assets

Additions, extensions, enlargements, or expansions made to an existing asset that benefit future periods should be recorded as a capitalized asset and depreciated over the useful life of the addition.

Reinstallations or rearrangements that provide greater production efficiency or reduce production costs and provide for benefits that extend into future accounting periods should be recorded as a capitalized asset and depreciated over the useful life of the modification. If there is no measurable benefit, or the benefit period is short-term, the cost should be recorded as an expense in the period incurred.

Asset Type	**Useful Life**
Land Improvements	480 months
Constructed Buildings	480 months
Manufactured Buildings	300 months
Infrastructure Assets	420 months
Improvements Other Than Buildings	180 months
Heavy Trucks	84 months
Light General Purpose Trucks	60 months
Automobiles	60 months
Office Furniture	60 months
Capitalized Modular Furniture	60 months
Computer Hardware – Mainframe	60 months
Computer Hardware – Midrange	60 months
Computer Hardware – PC	36 months
Telecommunication Equipment	60 months
Office Equipment	60 months
Leasehold Improvements	Determined based on lease agreement

Depreciation Calculation

Asset sales to employees or related parties at less than fair market value are to be reviewed by the CFO. Bargain purchases may require the difference between sales prices and fair market value to be included in the employees' W-2 compensation.

All assets acquired will be depreciated/amortized using the straight-line method, full month convention.

Asset classes and estimated useful lives are to be assigned consistently using the table above:

Transfers to Others

When capital equipment is transferred from one reporting entity to another within ACA, the asset cost and accumulated depreciation from the transferring entity is to be transferred to the receiving entity at the same amount. The Net Book Value of the transfer will be recorded as an intercompany receivable and intercompany payable for each reporting entity.

Asset Disposals/Retirements

Documented approval must be obtained and retained prior to the completion of an asset disposal or retirement (or part of an asset) for any of the following reasons: abandonment, donation, exchanged, retired, sold, traded or impaired, or retiring. In the month of disposition, the appropriate asset cost and accumulated depreciation accounts must be relieved, and any gain or loss recorded in a journal entry. The gain/loss associated with the disposal or retirement should not be included in revenue or gross margin, but must be included in operating income.

Damaged, Lost, or Stolen Assets

The CFO should be notified immediately of any damaged, lost or stolen assets to ensure the asset is removed from the asset register and the proper journal is booked.

Physical Inventories of Fixed Assets

The Company must perform an annual physical inventory of fixed assets. If adjustments are necessary they must be recorded immediately following the investigation into the discrepancy. The inventory should consist of identification, counting and reconciliation of:

- ❑ All capital assets to the Fixed Asset (or other company approved asset management system); and
- ❑ All other non-capital assets that are being tracked according to this policy, including computer software and hardware, and other assets with a high-incidence of theft.

The reconciliation of the inventory should be accomplished during the same quarter in which the inventory is completed.

Policy Owner: ____

Approved By: ____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 02**
	Capitalized Software for Internal Use
	Effective: July 1, 2011

Purpose

The purpose of this Capitalized Software Policy is to provide direction to account for purchases and subsequent accounting for capitalized software, in accordance with accounting principles generally accepted in the United States[1]. While computer software and websites are the most frequently encountered intangible, it is important to note that the concepts, policies, practices and procedures discussed herein apply to other intangible assets such as patents and copyrights, as well.

Overview

This policy establishes the general policy guidelines for the following:

1. Minimum Capitalization Level
2. CER Requirements
3. Recording Costs of Internally Developed Software
   - ❑ Project Phases
   - ❑ Capitalization Requirements
4. Costs Subsequent to Acquisition
5. Depreciation Calculation
6. Key Terminology

Minimum Capitalization Level

Any project for the development of internal use software shall be capitalized in accordance with the table below. All purchases less than the threshold will be charged as a expense in the period incurred.

	Capitalization Thresholds
Computer Software	$5 thousand
Websites	$5 thousand
Licenses and Permits	$2 thousand
Patents	$2 thousand
Copyrights and Trademarks	$2 thousand

Capital Expenditure Request Requirements

Proper authorization and review is required for all capital expenditures to ensure compliance with budget guidelines and sound investment decision-making. All capital expenditure requests must be approved in accordance with Delegation of Authority Matrix.

[1] GASB 51 - Accounting and Financial Reporting for Intangible Assets

Recorded Cost of Internally Developed Software

There are several stages in the internal development of software and websites. The costs incurred during those stages should be treated differently.

- Costs incurred during the preliminary project stage should be expensed.
- Costs incurred during the application development stage should be considered for capitalization when incurred after all of the following conditions have been satisfied:
  - The preliminary project stage has been completed.
  - The specific object of the project, including its intended service capacity, has been determined.
  - The technical feasibility of the project has been demonstrated.
  - The intention and ability to complete or continue development has been demonstrated. The intention and ability to complete or continue development can be exhibited by a commitment to fund the project.
- Costs incurred during the post implementation stage, such as annual maintenance fees, should, unless such costs constitute a betterment, be expensed.

Costs incurred during the application development stage that are to be capitalized should be accumulated as Development in Progress until the project is implemented. Upon implementation, project costs should be transferred from Development in Progress to Intangible Assets, at which time amortization of the cost of the project should begin.

Appropriate stages, similar to those applied to the development of software and websites, should be applied to other internally developed intangible resources, such as patents and copyrights, in determining which costs should be expensed and which should be considered for capitalization.

Cost Subsequent to Acquisition

All costs incurred subsequent to the capitalized software being placed into service (i.e. maintenance costs) shall be expensed as incurred, unless they provide enhancements to the software that provide more functionality.

Depreciation Calculation

All assets acquired will be depreciated/amortized using the straight-line method, full month convention.

Asset classes and estimated useful lives are to be assigned consistently using ACA's Asset Useful Lives table below. We should consider the following factors in determining the useful life for internally developed software:

1. Obsolescence
2. Technology
3. Competition
4. Other economic factors
5. Rapid changes that may be occurring in the development of software products, software operating systems, or computer hardware and whether management intends to replace any technologically inferior software or hardware.

	Useful Lives
Computer Software	60 months
Websites	36 months
Licenses and Permits	*
Patents	*
Copyrights and Trademarks	*

* The shorter of the legal or the estimated useful life is to be used; if the life is indefinite or unlimited as may be the case with licenses or permits then do not amortize**.**

Key Terminology

Application Development Stage – A phase in the internal development of software which includes design, coding, configuration, testing, installation and, if applicable, parallel processing.

Post Implementation Stage – A phase in the internal development of software that follows application development. This phase includes the operation and maintenance of the software as well as the training of users, operators and those charged with its maintenance.

Preliminary Project Stage – A phase in the internal development of software. This phase includes the definition of functional and technical needs and the evaluation of alternative approaches to the development or acquisition of software.

Policy Owner: ____

Approved By: ____

Purpose

The purpose of this policy is to establish the general guidelines for Arizona Commerce Authority ("ACA") to follow in regards to leases.

Overview

This policy establishes the general policy guidelines for the following:

1. Lease approval and review
2. Capital and operating lease determination
3. Leasehold improvements

General

For purposes of this policy, "lease" is defined as an agreement between two parties whereby the owner of an asset, the lessor, conveys the right to use an asset, property, plant or equipment, to the lessee for a stated period of time in return for periodic rent payments. The estimated fair market value must meet the minimum capitalization criteria as detailed in the Fixed Asset Policy.

Lease Approval and Review

In general, ACA avoids entering into leasing agreements but situations occur where leases are required. All leases must be approved in accordance with the Delegation of Authority Matrix. In addition, all leases are to be sent to and reviewed by the CFO to determine whether the lease is to be recorded as an operating or capital lease for accounting purposes in accordance with US GAAP.

Capital or Operating Lease Determination

The proper classification will be determined by the facts and circumstances surrounding the transaction. The lease is to be recorded as a capital lease if substantially all the risks and benefits of ownership are transferred to the lessee.

Substantially all of the risks and benefits of ownership are deemed to have been transferred if any **one** of the following criteria has been met:

- ❑ The lease transfers ownership at the end of the lease term;
- ❑ The lease contains a bargain purchase option;
- ❑ The lease has a term of 75 percent or more of the estimated life of the property; or
- ❑ The present value of the minimum lease payments at the beginning of the lease term is 90 percent or more of the fair market value of the property. The present value is computed using the lower of the lessee's incremental borrowing rate or the implicit rate in the lease, if determinable.

If any one of the above criteria is met, the lease is to be accounted for as a capital lease at the time the asset is placed in service by recording an asset and an obligation (liability, included in debt). The asset and corresponding liability are to be recorded at the lower of the present value of the minimum lease payments at the beginning of the lease term or the fair market value of the leased asset, if determinable.

If the lease transfers ownership at the end of the lease term or contains a bargain purchase option, the capital lease asset is amortized over the useful life of the leased property. If the lease does not contain a bargain purchase option or transfer ownership, the capital lease asset is amortized over the term of the lease.

Payments made under the terms of the lease are to be allocated between interest expense and a reduction to the capital lease obligation (liability) using a constant interest rate applied to the remaining lease obligation in a manner such that the liability is fully satisfied at the end of the lease term.

If none of the above criteria is met, the lease is to be accounted for as an operating lease and rental payments are considered to be a period expense. In this case, there is no balance sheet recognition of the asset.

Leasehold Improvements

When a location of ACA (lessee) makes an improvement that is permanently affixed to leased property, the title to those improvements passes to the owner of the property. Leasehold improvements represent an intangible asset equivalent to a right to use them. The right to use a leasehold improvement expires when the lease ends, even though the improvement may have a remaining useful life. As a result, the appropriate useful life for a leasehold improvement is the lesser of the useful life of the improvement or the remaining term of the lease.

For amortization purposes, normally only the initial fixed non-cancelable term is included when determining the term of the lease. There are exceptions to this rule when renewal options are included in the lease term. They are as follows:

- ❑ When it is a bargain renewal option and it is probable at the inception of the lease that the option will be exercised;
- ❑ When failure to exercise an option imposes a penalty on the lessee in an amount that, at the inception of the lease, renewal seems reasonably assured; and
- ❑ When the otherwise excludable renewal period precedes a bargain purchase option of the leased asset.

Leases between related parties are classified and accounted for as though the parties are unrelated, except in cases where it is certain that the terms and conditions of the agreement have been influenced significantly by the fact that the lessor and lessee are related. When this is the case, the classification and/or accounting is modified to reflect the true economic substance of the transaction rather than the legal form. Accounting and disclosure for related party transactions must comply with the requirements of Governmental Accounting Standards Board No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards."

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 04**
	Long Lived Asset Impairment
	Effective: July 1, 2011

Purpose

The purpose of this policy is to establish general awareness of triggers of Asset Impairment and the general guidelines for accounting for the impairment in accordance with accounting principles generally accepted in the United States[1].

Overview

This policy establishes the general policy guidelines for the following:
1. Impairment Triggers
2. Abandoned Assets
3. Reporting of Impaired Assets

This policy does not cover the initial valuation or recording of long-lived assets, or the subsequent determination or recording of depreciation. (See ACA's Fixed Assets Policy).

This policy provides a guide over the appropriate accounting treatment, and each case should be considered on an individual basis with review of appropriate literature where appropriate.

General

For the purpose of this policy *impairment* is an other than temporary condition that exists when the carrying amount of a long-lived asset exceeds the asset's fair value. Fixed asset impairment is assessed based on the CFO's awareness of triggering events for the specific asset or asset group.

Impairment triggers

The following are some examples of the impairment indicators:

- ❑ There is a significant adverse change in the manner the asset is used, such as the asset is temporarily or permanently idled, or use is severely limited;
- ❑ New or change in related governmental or environmental regulation;
- ❑ There is an adverse change in the physical condition of the asset; and/or
- ❑ New technology causing it to become obsolete.

The following situations apply the previous examples to situations which have occurred at ACA:

- ❑ Changing office space – all immovable asset or improvements would be impaired
- ❑ Unforeseen and uninsured damage to an asset; and/or
- ❑ Canceling a lease – All leasehold improvements would be impaired.

Impairment loss should only be recognized when the carrying value is **not recoverable**. An impairment loss should not be recognized for an asset that meets an impairment condition, but is expected to perform the function as it was intended, for its entire useful life or if the impairment can be recovered.

[1] GASB 42 - Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries

When an impairment loss is recognized, the adjusted carrying amount is the new cost basis of the asset. Depreciation or amortization is calculated based on the new cost basis and taken over the remaining useful life. Once an adjustment has been taken to the carrying value of an asset, the impairment loss may not be restored. Impairment losses are recorded in operating income as an other general expense, as follows:

- ❑ Impairment Loss (operating section of income statement) dr. $ xxx
- ❑ Accumulated Depreciation cr. $ xxx

Abandoned Assets

Fixed assets no longer used are classified as abandoned and are considered disposed of in accordance with US GAAP. An impairment charge should be taken with the asset being written down to the estimated resale or salvage value. In the month of abandonment, recording the appropriate asset and accumulated depreciation accounts must be relieved, and any gain or loss recorded.

Reporting of Impaired Assets

Once the CFO approves the asset impairment, it should be reported at the lower of carrying value or fair value. Accounting should record the previously mentioned journal entry and then continuing depreciating the new carry value of the asset for the remainder of its useful life.

Policy Owner:____

Approved By: ____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 05**
	Prepaids
	Effective: July 1, 2011

Purpose

The purpose of this policy is to ensure Arizona Commerce Authority ("ACA") accounts for prepaid expense in accordance with accounting principles generally accepted in the United States.

Overview

This policy establishes the general policy guidelines for recording prepaid expenses.

General

Prepaid Expenses are current assets that are created by paying for an expense that will not be incurred until a future period. These expenses include but are not limited to the prepayment of rent, insurance, and payroll related expenses.

ACA should not engage in prepayments unless it is the industry standard or if it is in the best interests of this state to prepay. All prepayments must be made in accordance with Arizona Revised Statues – Title 35 Public Finances - Section 35-181.01. Any exception must be approved by the director of the department of administration.

Recording Prepaid Expenses

Expenses are generally recorded as ACA receives goods or services. In some instances payments are made prior to the period in which the expense is incurred. When this occurs a Prepaid Expense must be recorded upon payment of the future expenses to the appropriate prepaid account in the general ledger. These balances should be tracked within accounts payable and submitted to financial accounting to ensure the journal entries are properly recorded. Properly recording payments for future expenses as prepaid assets ensures the related expense accounts are fairly stated for financial reporting purposes.

Materiality

To ensure ACA's Financial Statements are fairly stated in accordance with accounting principals generally accepted in the United States a materiality threshold of $1,000 was set. All prepaid expenses below the materiality threshold can be expensed during the period paid as the administrative burden is considered to high and does not add any additional value to the stakeholders of ACA.

Realizing the Expenses

The financial accounting group will track the prepaid expenses and ensure the asset is being amortized appropriately in comparison to the realization of expenses to ensure the expense and reduction of the prepaid balance are being recorded in the appropriate accounting period.

Policy Owner:____

Approved By: ____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 06** *Purchases and Accounts Payable* **Effective: July 1, 2011**

Purpose

The purpose of this policy is to establish general guidelines for Arizona Commerce Authority (―ACA”) for the Purchase and Accounts Payable process.

Overview

This policy provides the following:

1. Purchasing Activities
   - ❑ Purchase Orders
2. Receiving
3. Accounts Payable and Disbursements
4. Management Review
5. New Vendors
6. Contracts and Minimum Purchase Commitments

General

Proper segregation of duties must remain intact and requires that more than one individual perform the functions described in the policy. This policy does not include the specific pre-approval requirements for Capital Expenditures since it is defined in the *Delegation of Authority* policy.

Purchasing Activities

Purchasing activities are controlled by the accounting department through the use of purchase requisitions or purchase orders (for both general and outside purchases). See the ***Procurement and Grant*** policy for more information on the procurement process.

The following rules must be observed:

- ❑ Purchase orders (POs) are required for any item that will be received as well as for contractor/consulting services provided;
- ❑ An approved vendor list shall be maintained. If a vendor is not on the list (hence not in the system) the Purchaser must follow the steps noted in the ―New Vendors” section below to add a vendor to the list;
- ❑ POs must be approved in accordance with *Delegation of Authority* policy.
- ❑ POs must be prepared and approved before the purchase is made;
- ❑ The CFO may elect to not require POs for purchases under $100.00 USD;
- ❑ POs are not required for recurring monthly payments (for example: building rent payments, employee expense reports, and payments for utilities, such as electric, gas, and water); and
- ❑ Annual blanket purchase orders may be authorized by the Chief Operating Officer for certain regularly recurring purchases.
- ❑ No purchase orders shall over expend or over obligate the ACA's appropriations, grants and other funding.

Purchase Orders

Purchase requisitions and purchase orders are to be prepared using SAGE MIP.

Receiving

The Receiver(s) is responsible for the following:

- Inspecting goods received for accuracy of goods delivered;
- The purchase order and packing slip should be signed or initialed and dated by the receiver, to indicate acceptable receipt of goods; and
- Ensure appropriate documentation is delivered to the accounting department for processing.

Accounts Payable and Disbursements

Requests for disbursements (payments) for accounts payable should be documented on a standard **Check Request Form** if the disbursement is not initiated by a vendor invoice.

In addition, the following practices should be followed relative to disbursements:

- Accounting attaches all supporting documentation to the PO (requisition, packing slips, shipping slips, capital expenditure request forms, etc.).
- Accounting will review invoices for discounts, sales tax, payment due date and mathematical accuracy.
- The CFO reviews supporting documentation, account coding, and approves completed invoices for payment and performs a final review of all invoices before checks are released.
- Payments are not to be made from copies of vendor invoices or from fax copies of invoices unless approved by the CFO. All invoices shall be marked paid once a payment has been issued to prevent double payment.
- Accounting shall reconcile monthly statements from vendors to the open purchase orders and paid claims.

Management Review

The CFO will review the Weekly Check Register by:

- Verifying the numerical check sequence has been maintained from the previous check register; and
- Verifying all manual checks have been properly approved and included in the check register.

The CFO then evidences the review by signing and dating the Check Register.

New Vendors

A new vendor is established by completing a ***Vendor Maintenance Request Form***. A ***Vendor Maintenance Request Form*** must be completed and approved by the requisite management to facilitate adding a new vendor. Annually, the approved Vendor list must be reviewed for active/inactive vendors to deactivate vendors that are no longer in use.

Contracts and Minimum Purchase Commitments

Transactions that require formal contracts to be signed by the ACA must be reviewed by the General Counsel prior to signing the contract.

ACA does not make minimum purchase commitments, sometimes these arrangements are referred to as take or pay contracts. If an exception is necessary then documented approval from the Chief Operating Officer and CFO noting the exception to the Policy must be obtained and subsequently retained with the contract. The Comptroller in the General Accounting Office must be notified of any minimum purchase contracts.

Key Terminology

- **Purchase Order** – A purchase order is defined as a commitment to purchase an item(s) as of that date or at a future date. It is not recorded as an expense until the good or service is provided.
- **Encumbrance** – An encumbrance is defined as commitments related to unperformed (executory) contracts for goods or services—often should be recorded for budgetary control purposes. It is not recorded as an expenditure unless it is related to the use of currently available financial resources and the good or service has been provided.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 07**
	Payroll and Related Processing
	Effective: July 1, 2011

Purpose

The purpose of this policy is to establish the minimum requirements for the Payroll and Related Processing for Arizona Commerce Authority ("ACA").

Overview

This policy provides the following:

1. General information about the policy of the Payroll and related processing
2. Authorization and Approval guidelines for:
   - ❑ Non-exempt employees
   - ❑ Exempt Employees
   - ❑ Payroll/Employee Status
   - ❑ Paid Time Off
   - ❑ Payroll Review
   - ❑ Payroll Reconciliation

General

ACA requires that all payroll, vacation, sick, personal, overtime, and other time associated with ACA business-related activities be properly authorized, reported, recorded, and disbursed. Inherent in this policy are the following requirements:

- ❑ Segregation of duties must be achieved in the processing of payroll (i.e., the preparer and approver of payroll transactions cannot be the same individual).
- ❑ Each payroll transaction, including timesheets, paid time off and salary or wage increases, must be properly approved.
- ❑ Accurate and timely reporting of an employee's time and attendance is the direct responsibility of the employee's immediate supervisor.
- ❑ Payroll changes that are not properly documented and approved will not be processed.

Authorization and Approval

Non-exempt employees:

Employees that are required to complete a daily timesheet must log in and out of the ACA approved time-tracking system to record their time. If system access is not possible, the employee must fill out and submit a completed time card or attendance sheet to their immediate supervisor. The immediate supervisor must approve the employee's time.

Exempt Employees:

Paid Time Off (PTO); e.g., vacation, sick, or bereavement time, must be approved for all exempt employees. PTO must be supported by and reported on a Time Off Request form (TOR). Changes to the standard hours for exempt employees other than PTO, such as unpaid leave or disability, should be reported to the HR Director on a TOR in the same period in which non-standard hours were incurred. Disability could be paid using disability documents completed by the doctor or a supporting human resource form.

Payroll/Employee Status Changes

All changes affecting employee compensation or position in ACA must be processed using a Personnel Change Notice (PCN) Form. The PCN must be approved by the appropriate level of management, as described in the policy statement herein, and be completed prior to effective date of the change.

In the event individual PCN Forms are impractical; e.g., bonuses or pay raises are given in mass, ACA may choose to document the approval by an alternative means.

Paid Time Off

Regardless of employment classification, time-off request forms or other comparable alternatives must be utilized by all employees. To help accurately track vacation day, sick days, Medical Leave of Absence (MLOA), and the use of all allotted paid time off days, all employees must submit the Time Off Request form (TOR) or comparable alternative to their supervisor prior to taking time off. The TOR should be properly approved by the employee's supervisor or manager.

Payroll Review

The review of payroll reports must be documented in a consistent manner, including name of reviewer, signature or initials of reviewer, the results of the review or changes to be made as a result of the review and the date the review was performed. This documentation could take the form of initials, date and disposition on the third party payroll report for which the review is being performed.

Payroll Reconciliation

The General Ledger must be reconciled to the payroll expenses. This reconciliation must be documented and approved in accordance with ACA's Policy on the "**Account Reconciliations**".

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 08**
	Expense Accruals
	Effective: July 1, 2011

Purpose

The purpose of this policy is to ensure Arizona Commerce Authority ("ACA") is properly matching expenses to the revenues in the period in which they were incurred as required by US GAAP.

Overview

This policy provides the following:

1. General Accrual Guidelines
2. Monthly Responsibilities
3. Subsequent Events and Contingent Liabilities
4. Quarterly Requirements
5. Key terminology

The overall goal is to ensure ACA records all expenses in the period in which they occur even if no invoice has been received or payment been made.

General

At the close of each accounting period ACA must record expenses (DR) and accrued expense (CR) for all instances where it incurred expenses or realized benefits from goods or services for which ACA has not recorded as expense. The following are the expenses that are commonly billed in lag and should be considered when booking the accruals at month end:

1. Trade AP
2. Interest expense
3. Rent expense
4. Utilities expense
5. Professional Service Fees (Audit, Legal and Consultant Fees)
6. Taxes
7. Payroll related expenses
8. Advance application fees

All items to be accrued should use the best data available to estimate the actual expense. Where possible the actual amount of the expense should be gathered from contracts or purchase orders if the actual amount is not available a reasonable estimate should be booked based on historical figures or any other document that can provide support for the estimation of the calculation.

Monthly Responsibilities

At month end a high level assessment of accruals should be maintained with the supporting documentation in the month-end file. This is performed to verify the key assumptions used in the estimation of these amounts have not had a material change during the month.

Subsequent Events and Contingent Liabilities

The ACA shall implement procedures to ensure the identification and analysis of all subsequent events that occur after the date of the financial statements but prior to issuance for appropriate accounting treatment:

- If the subsequent event relates to conditions that existed prior to the date of the financial statements and can be reasonably estimated the amount should be accrued.
- If the subsequent events does not relate to conditions that existed at the balance sheet date, the event should not be accrued.

Quarterly Responsibilities

Quarterly, consistent with the ***Account Reconciliation Policy***, a formal recalculation should be performed to justify the balance of the accrual. Any discrepancies must be resolved in the month following the review. Documentation of the resolution of the discrepancy must be retained with attached supporting documentation of outcome and adjustment in the month-end file for the month in which the adjustment is made.

Key Terminology

- **Expenses** – Expenses are recorded as incurred.
- **Expenditures –** Expenditures are expenses, with the exception of certain funds (governmental and fiduciary funds). For these certain funds, which are accounted for on a modified accrual basis, an expenditure is a decrease/charge of current available financial resources. (i.e. non-matured debt would not be an expenditure in the current period). For purposes of this policy an expense and expenditure shall have the same meaning, however, some difference do exist between private accounting and government accounting that should be considered in the financial reporting phase.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 09**
	Revenue Recognition
	Effective: July 1, 2011

Purpose

To establish the accounting policy for revenue recognition, deferral, and categorization.

Overview

This policy provides the following:

1. Revenue Recognition Policies for Government GAAP
2. Quarterly Requirements

The overall goal is to ensure ACA records all revenue in the proper period based on the type of GAAP applicable for reporting purposes.

Revenue Recognition Policies for Public GAAP

All revenue recognition policies and procedures for all funds must be in accordance with Governmental Accounting Standards Board No 33 "Accounting and Financial Reporting for Nonexchange Transactions" and State Laws. Any deviation from this policy must be documented and signed-off by the CEO, COO and CFO. These deviations must be communicated to the Board of Directors and Audit Committee on a quarterly basis.

Quarterly Responsibilities

Quarterly, consistent with the ***Account Reconciliation Policy***, a formal recalculation should perform a reconciliation of revenue recognized during the period that does not meet revenue recognition policies and defer recognition for each quarter.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 10**
	Allowance for Doubtful Accounts
	Effective: July 1, 2011

Purpose

The purpose of this policy is to ensure Arizona Commerce Authority's ("ACA") accounts for the Allowance for Doubtful Accounts is accounted for properly and consistently.

Overview

The policy contains the following:

1. General policy for Bad Debt Write-offs

General

Guidance from the Commercial Collection Agency Association suggests that the likelihood of collection deteriorates with age. Therefore, each reporting unit should maintain a reasonable balance in the Allowance for Doubtful Accounts based on past experience and the probability of collecting outstanding promises to give.

The purpose of writing off an Accounts Receivable balance is to maintain a clean and transparent balance sheet. Prior to writing an account off, the balance should already be reserved in the Allowance for Doubtful Accounts (Contra-Asset) balance as defined above. As such the process of writing off the balance will not have an adverse affect on the P&L of ACA.

All account write-offs should have a documented approval by the Chief Operating Officer.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 11**
	Taxes
	Effective: July 1, 2011

Purpose

The purpose of this policy is to ensure Arizona Commerce Authority ("ACA") is properly recording and paying all taxes as required by all laws and regulations.

Overview

This policy provides general guidelines for the following:

1. Real Estate and Personal Property Tax;
2. Income Tax; and
3. Sales and Rental Tax

Real Estate and Property Tax

ACA is a state agency and is exempt from State and local taxes for property it owns.

Income Tax

ACA is a state agency and is exempt from Federal and State income taxes.

Sales and Rental Tax

Sales and rental taxes are collected and paid by companies when they sell taxable products or services in a state where the seller has registered to pay taxes and the purchasing company is not a sales tax exempt company. ACA is not exempt paying these taxes to companies.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 2 – 12**
	Federal Financial Assistance
	Effective: July 1, 2011

Purpose

To establish the accounting policy for revenue recognition, deferral, and categorization.

Overview

A Federal grant is an award of financial assistance in the form of money, or property in lieu of money, by the Federal government to an eligible partner (grantee).

Generally, there are two (2) main types of federal grants. The first is the block grant. A block grant covers a wide variety of activities with broad functional areas. This type of grant allows the ACA to control, to some degree, how the grant funds are expended. The other type of Federal grant is the categorical grant. This grant type is given for a specified program that has narrowly defined activities associated with it. There is minimum flexibility with this type of grant. The ACA may have a specific type of grant within a block or categorical grant.

General

The primary focus of this policy is Federal grants.

Federal Assistance Policies

1. The ACA must ensure that the expenditure of funds complies with all applicable Federal requirements. The recipient should also consider guidance from the grantor agency. In general, when there are multiple sources of Federal requirements, the most specific requirement should be followed.
2. Compliance with the Federal Cash Management Improvement Act (CMIA) requires that cash advances to the ACA shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of ACA in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the ACA for direct program costs and the proportionate share of any allowable indirect costs.
3. All Federal financial reports must be accurately prepared and submitted to the appropriate Federal agency(s) in a timely manner. All supporting documentation should be maintained for Federal/State review in compliance with the appropriate retention requirements. The ACA is responsible for ensuring that all subrecipients comply with applicable reporting requirements and record retention requirements. For further information, refer to the applicable OMB Circulars, grant agreements and CFRs.
4. The ACA is required to establish a system to assure that audits of the subrecipients meet the requirements of OMB Circular A-133 (Sec.__.400 (d)).
5. Once cash has been received from the federal agency. The ACA shall release the funds to the subrecipient in a timely manner (defined as within 3 business days).

6. The ACA and subgrantees are required to maintain an internal control structure that provides reasonable assurance that Federal assistance programs are managed in compliance with applicable laws and regulations.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 3 – 01**
	Treasury
	Effective: July 1, 2011

Purpose

The purpose of this policy is to define the responsibilities for the Accounting at Arizona Commerce Authority ("ACA").

Overview

This policy provides guidance for the following:

1. Bank Account Administration
2. Investment
3. Loans

The overall goal is to manage the financial position of ACA by maximizing investments and minimizing the economic risks and exposure.

General

ACA's accounting function is coordinated and managed by the CFO. The responsibilities include Bank Account Administration, Investments, and Credit.

Bank Account Administration

The accounting function oversees the following banking activities:

- ❑ Approval of banking institutions;
- ❑ Establishment and closure of bank accounts at approved banks;
- ❑ Establishment of new banking services at approved banks;
- ❑ Authorization and release of all wire transfers; and
- ❑ Designation of authorized signatories for withdrawals from bank accounts.

For additional information see the policy titled *Bank Account Administration*.

Investment

The accounting function oversees the Investment of excess cash for ACA. See the policy titled *Investments* for a detailed explanation.

Loans

It is ACA's general policy not to provide loans to anyone..

Policy Owner:____

Approved By:____

Arizona Commerce Authority — Advancing Arizona's Economy	**Policy No.: 3 – 02**
	Bank Account Administration
	Effective: July 1, 2011

Purpose

The purpose of this policy is to establish guidelines for Bank Account Administration for Arizona Commerce Authority ("ACA") to follow.

Overview

This policy establishes the responsibilities for Bank Account Administration, including:

1. Establishing new accounts;
2. Account Maintenance;
3. Closing accounts; and
4. Wire Transfers.

The goal of the Bank Account Administration Policy is to minimize the risks associated with banking and maximizing the relationships at the financial institutions where ACA does business.

General

It is ACA's general treasury policy that all treasury and related transactions are coordinated and managed by Accounting.

All accounts established and maintained by ACA shall be clearly identified in ACA's books and records and shall be in the name of ACA or the fund to which the monies belong to. ACA's CFO must provide a documented approval for any and all deviations from this policy.

Establishing New Accounts

All bank accounts are to be established by ACA's CFO's office. All requests for the establishment of a bank account should be sent to the CFO who will ensure the inclusion of the following key criteria: i) type of bank account; ii) the purpose of the account; iii) authorized signatories on the account; and iv) the legal name of the bank.

Once the CFO has verified the request includes all required information it is then forwarded to the Chief Operating Officer for approval.

The approved request is then communicated to the bank with all the requirements for bank processing (i.e. signature matrix, type of account, signature limits, dual signature requirements, etc). The approved request is also sent to accounting to ensure the new bank account is entered into the General Ledger.

Account Maintenance

Accounting is responsible for the ongoing account maintenance of all bank accounts. The two key practices involved in the maintenance of bank accounts include the annual account assessment and the signature authority review.

The CFO reviews all the data relative to ACA's banking institutions to ensure the accounts are still meeting ACA's needs. During the annual review accounting should also ensure the individuals with signature authority on the accounts remain appropriate.

Closing Bank Accounts

There are a few different scenarios where closing a bank account is deemed appropriate. accounting is responsible for recognizing the scenarios and promptly closing the bank account.

Accounting may also recognize an account is no longer necessary when they perform the annual account review

The Chief Operating Office must approval the closure of all bank accounts.

Wire Transfers

A wire transfer is an online transmission of funds from a bank account to a vendor or supplier bank account. ACA's CFO is authorized to issue wire transfers in lieu of manual checks or ACH transaction when access to funds is needed immediately.

Any representative that requires a wire transfer must complete and sign a **Wire Transfer Form** and attach the appropriate back-up documentation related to the transaction, such as an invoice or contract (including necessary approvals for payment). The CFO will verify the data and get the necessary signatures from the Chief Operating Officer and/or CEO based on the delegation of authority. Once the wire transfer has been approved, the CFO wires ACA funds to the receiving bank account. Recurring transactions can be set-up by Accounting, if it is deemed necessary.

Policy Owner:____

Approved By:____

ARIZONA COMMERCE AUTHORITY Advancing Arizona's Economy	**Policy No.: 3 – 03**
	Investments
	Effective: July 1, 2011

Purpose

The purpose of this policy is to establish guidance for investing the excess cash of Arizona Commerce Authority ("ACA") in a clear and consistent manner.

Overview

This policy contains the following sections:

1. General Investment
2. Investment Guidelines

General Investment

ACA's cash resources are to be used primarily to meet the working capital and grant requirements of day-to-day operations. Accordingly, the investment of funds, in excess of the capital requirements, is on a temporary basis. The objective is to convert these temporary funds into earning assets and back to cash when required. Available funds should be invested in such a manner as to meet the following objectives:

- **Safety of Principal** – The primary objective is the preservation of capital within the portfolio.
- **Liquidity** – Sufficient liquidity will be maintained to meet anticipated cash flow needs.
- **Yield** – The portfolio will be structured to obtain the highest rate of return consistent with the liquidity needs, investment guidelines, risk tolerance, and permitted securities.

Investment Guidelines:

In order to ensure that instruments qualifying for investments are of acceptable credit risk, ACA has elected to investments with the State Treasurer and adopt their Investment Policy. These instruments are authorized for investments by House Bill 2001.

All investments that are outside of the pre approved guidelines as defined by in this policy must receive documented approval from the Board of Directors.

Policy Owner:____

Approved By:____