

STATE OF ARIZONA
DEPARTMENT OF CORRECTIONS
ARIZONA CORRECTIONAL INDUSTRIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Investment Income

Investment income is composed of interest, dividends, and net changes in fair value of investments on ACI's portion of monies deposited with the State Treasurer.

I. Compensated Absences

Compensated absences consist of vacation leave earned by employees based on services already rendered. Employees may accumulate up to 320 hours of vacation if salaried or 240 hours if hourly depending on years of service, but any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, upon retirement, employees who have accumulated at least 500 hours of sick leave receive some benefit payments. Benefit payments vary based upon the number of sick hours accumulated, but cannot exceed \$30,000. ACI makes contributions to the State's Retiree Accumulated Sick Leave Fund for each employee, and the State makes benefit payments directly to the retired employees. Consequently, ACI has not accrued a liability for these sick leave benefits.

NOTE 2 DEPOSITS AND INVESTMENTS

Cash in bank and on hand-At June 30, 2010, cash on hand was \$1,000, the carrying amount of cash in bank was \$65,665, and the bank balance was \$65,731. ACI does not have a formal policy with respect to custodial credit risk. Arizona Revised Statutes (A.R.S.) stipulates that collateral is required for demand deposits and repurchase agreements at 102 percent of all deposits not covered by federal depository insurance. At June 30, 2010, ACI's bank balance was not exposed to custodial credit risk due to uninsured and uncollateralized accounts.

Cash and investment held by the State Treasurer-A.R.S. require state agencies' monies to be deposited with the State Treasurer, and further requires those deposits to be invested in various pooled funds. Cash on deposit with State Treasurer represent ACI's portion of those monies. ACI separately invested monies in the State Treasurer's Investment Pool 3 and interest earned from these separately invested monies is allocated monthly to ACI based upon the accounts average daily balance. The fair value of ACI's position in the pool approximates the value of ACI's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.