

**Cash Management Improvement Act Agreement
between
The State of Arizona
and
The Secretary of the Treasury,
United States Department of the Treasury**

The Secretary of the Treasury, United States Department of the Treasury (hereafter 'Secretary'), and State of Arizona (hereafter 'State'), in order to implement Section 5 of the Cash Management Improvement Act of 1990, as amended (hereafter 'Act'), agree as follows:

1.0 AGENTS OF THE AGREEMENT

1.1 The Authorized Official(s) for the State of Arizona shall be the the State Comptroller, Department of Administration, State of Arizona in all matters concerning this Agreement.

1.2 The Assistant Commissioner, Federal Finance, Financial Management Service (FMS), U.S. Department of the Treasury, shall act as the Secretary's representative in all matters concerning this Agreement.

2.0 AUTHORITY

2.1 The authority for this Agreement is the Cash Management Improvement Act of 1990 (Public Law 101-453), as amended by the Cash Management Improvement Act of 1992 (Public Law 102-589), codified at 31 U.S.C. 6501 and 31 U.S.C. 6503.

2.2 The regulations codified at 31 CFR Part 205 shall apply to all matters pertaining to this Agreement, and are incorporated herein by reference herein. In the event of any inconsistency between this Agreement and 31 CFR Part 205, the regulations shall govern.

3.0 DURATION, AMENDING, TERMINATING, AND MISCELLANEOUS PROVISIONS

3.1 This Agreement shall take effect on 07/01/2012 and shall remain in effect until terminated.

3.2 This Agreement may be amended at any time by written, mutual consent of the State and FMS. This Agreement shall be amended annually to incorporate new programs that qualify as major Federal assistance programs and remove programs that no longer qualify as major Federal assistance programs. A State must notify FMS in writing within 30 days of the time the State becomes aware of a change that involves additions or deletions of programs subject to Subpart A, changes in funding techniques, and/or changes in clearance patterns. The notification must include a proposed amendment for review by FMS.

3.3 Notwithstanding section 3.2, in the event of Federal or State non-compliance with Subpart B of 31 CFR, Part 205, FMS may amend this Agreement at any time to incorporate additional programs and the entities that administer those programs.

3.4 This Agreement may be terminated by either party with 30 days' written notice. If this Agreement is terminated, FMS will prescribe the funding techniques, clearance patterns, and methods for calculating interest liabilities to be used by the State.

4.0 PROGRAMS COVERED

4.1 The State's threshold and its major Federal assistance programs shall be determined based on the State's Single Audit Report for fiscal year ending 06/30/2011.

All major Federal assistance programs shall be covered by this Agreement, unless otherwise specified in section 4.4 of this Agreement.

4.2 The State's threshold for major Federal assistance programs is \$60,000,000.

The following programs meet or exceed the threshold and are not excluded in Section 4.4:

10.551 Supplemental Nutrition Assistance Program
10.553 School Breakfast Program
10.555 National School Lunch Program
10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
17.225F Unemployment Insurance -- Federal Benefit Account and Administrative Costs
17.225S Unemployment Insurance -- State Benefit Account
20.205 Highway Planning and Construction
84.010 Title I Grants to Local Educational Agencies
84.027 Special Education -- Grants to States
84.389 Title I Grants to Local Educational Agencies, Recovery Act
93.558 Temporary Assistance for Needy Families
93.658 Foster Care -- Title IV-E
93.659 Adoption Assistance
93.778 Medical Assistance Program

4.3 The following programs fall below the State's threshold but have been required to be covered by FMS in accordance with the non-compliance provisions of Subpart B of 31 CFR Part 205:

There are currently no programs listed for Section 4.3.

4.4 The following programs exceed the State's threshold but have been excluded from coverage for the reason indicated:

84.391 Special Education Grants to States, Recovery Act --- Exclusion:Discontinued
84.410 Education Jobs Fund --- Exclusion:Discontinued
93.268 Immunization Grants --- Exclusion:Non-Cash

5.0 ENTITIES COVERED

5.1 State agencies and instrumentalities that meet the definition of a State per 31 CFR Part 205, shall be subject to the terms of this Agreement. The following is a list of such entities that administer funds under the programs listed in Section 4.0 of this Agreement:

Arizona Health Care Cost Containment System
Department of Economic Security
Department of Education
Department of Health Services
Department of Transportation

5.2 Entities that meet the definition of a Fiscal Agent per 31 CFR Part 205 shall be subject to the terms of this Agreement. The following is a list of Fiscal Agents that administer funds under the programs listed in the Section 4.0 of this Agreement:

FSMC (Financial Services Management Corporation) 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

JP Morgan 17.225F Unemployment Insurance -- Federal Benefit Account and Administrative Costs

JP Morgan 17.225S Unemployment Insurance -- State Benefit Account

JP Morgan Electronic Financial Services Inc. 10.551 Supplemental Nutrition Assistance Program

5.3 When payments are made from one State agency to a second State agency using the capitated rate payment method approved by the Federal grantor agency or a fee for service payment, the funds shall be considered paid out for program purposes at the time they are expended by the first State agency. Current examples of this are capitated and fee for service payments made from the Arizona Health Care Cost Containment System (AHCCCS) to our Departments of Economic Security and Health Services as negotiated with the Centers for Medicare and Medicaid Services (CMS).

6.0 FUNDING TECHNIQUES

6.1 General Terms

6.1.1 The State shall request Federal funds in accordance with the appropriate cut-off times shown in Exhibit I to ensure funds will be received and credited to a State account by the times specified in the funding techniques. Exhibit I is incorporated by reference herein.

6.1.2 The State shall schedule the receipt of Federal funds such that the funds are received and credited to a State account in accordance with the clearance patterns specified in Exhibit II - List of State Clearance Patterns. Exhibit II is incorporated by reference herein.

6.1.3 In instances where the receipt of funds is scheduled for a Saturday, the State shall request funds for deposit on Friday. In instances where the receipt of funds is scheduled for a Sunday, the State shall request funds for deposit on Monday. In instances where the receipt of Federal funds is scheduled for deposit on a day when the State is not open for business, the State shall request funds for deposit the day following the scheduled day; in instances where the receipt of Federal funds is scheduled for deposit on a day when the Federal Government is not open for business, the State shall request funds for deposit the day prior to the scheduled day.

6.1.4 Estimates and Reconciliation of Estimates:

Where estimated expenditures are used to determine the amount of the drawdown, the State will indicate in the terms of the State unique funding technique how the estimated amount is determined and when and how the State will reconcile the difference between the estimate and the State's actual expenditures.

6.1.5 Supplemental Funding:

Unless otherwise defined by program rules, Supplemental Funding is the award of additional funds to provide for an increase in costs due to unforeseen circumstances.

The State will comply with all Federal program agency policies and procedures for requesting supplemental grant funding.

The State will comply with the following guidelines when requesting supplemental funding for the Medical Assistance Program and associated administrative payments (CFDA 93.778):

The State must submit a revised Medicaid Program Budget Report (CMS-37) to request supplemental funding. The CMS guidelines and instructions for completing the CMS-37 are provided in Section 2600F of the State Medicaid Manual (SMM). The CMS/CO must receive the revised Form CMS-37 through the Medicaid Budget Expenditure System/Children's Budget Expenditure System (MBES/CBES) no later than 10 calendar days before the end of the quarter for which the supplemental grant award is being requested.

Additional guidance on this policy is available from the respective CMS Regional Office, U.S. Department of Health & Human Services.

The State will comply with the following guidelines when requesting supplemental funding for TANF (CFDA 93.558), CCDF (CFDA 93.575), CSE (93.563), and the FC/AA (CFDA 93.658 and CFDA 93.659) programs administered by the U.S. Department of Human Services, Administration for Children and Families (HHS/ACF):

a. Timing of the Request

A State should initiate its request for supplemental funding during a quarter as soon as it becomes aware of the fact that a shortfall does/will exist. For the TANF and CCDF grants, supplemental funding requests (estimates) may be submitted by a State, for consideration by ACF, up through and including the 15th day of the third month of the first, second or third quarter of any fiscal year. Since TANF and CCDF are block grant programs, all unawarded portions of the annual allotment will automatically be issued at the beginning of the fourth quarter. Therefore, supplemental funding requests will not be available during the fourth quarter for these programs. For the CSE and FC/AA programs, supplemental funding requests may be submitted by a state, for consideration by ACF, up through and including the 15th day of the third month of any quarter of a fiscal year.

b. Justification for the Request

The request for a supplemental funding for any of the above mentioned programs should contain a justification clearly documenting the need for the additional funding authority during the current quarter. This documentation should be in the form of State accounting records or similar documents that will show the actual expenditures through the most recent month for which such data are available, as well as the State's most accurate projection of its anticipated expenditures during the remaining month(s) of the quarter. For either the TANF or the CCDF program, the State's justification should also include an explanation of the activities requiring the obligation and/or expenditure of amounts that exceed the normal quarterly grant award restrictions and why these activities could not have been delayed until the next quarter.

c. Form Submittal

Supplemental funding requests should be made by completing the appropriate ACF quarterly report of expenditures and estimates applicable to the particular program for which the grant award request is being made.

d. Approval Process

Upon receipt of the state's request for additional funding authority for a quarter, the ACF Regional Office will promptly review the supporting documentation. If the request is properly justified, so long as ACF has adequate funding availability, the State's request will be expedited and supplemental funding will be issued within 5 days of ACF receiving the request. The State will be notified by the Regional Office when the supplemental award has been transmitted to the Payment Management System (PMS) and when it may initiate drawdowns against the supplemental funding.

Additional guidance on this policy is provided in the U.S. Department of Health & Human Services, Administration for Children and Families, letter (May 19, 2004) to State Administrators from the Deputy Assistant Secretary for Administration.

6.2 Description of Funding Techniques

6.2.1 The following are terms under which standard funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.2 of this Agreement.

Actual Clearance, ZBA - ACH

The State shall request funds such that they are deposited by ACH in a State account on the settlement date of payments issued by the State. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be for the amount of funds that clear the State's account on the settlement date. This funding technique is interest neutral.

Actual Clearance, ZBA - Same Day Payment

The State shall request funds the same day it pays out funds, in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. A Federal agency will deposit funds in a State account the same day as requested. The amount of the request shall be for the amount of funds that clear the State's account that day. This funding technique is interest neutral.

Average Clearance

The State shall request funds such that they are deposited by ACH on the dollar-weighted average day of clearance for the disbursement, in accordance with the clearance pattern specified in Exhibit II. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be for the exact amount of that disbursement. This funding technique is interest neutral.

Pre-Issuance

The State shall request funds such that they are deposited in a State account not more than three business days prior to the day the State makes a disbursement. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be the amount the State expects to disburse. This funding technique is not interest neutral.

6.2.2 The following are terms under which funding techniques for administrative costs shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.2 of this Agreement.

There are no funding techniques listed in Section 6.2.2

6.2.3 The following are terms under which miscellaneous funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.2 of this Agreement.

There are no funding techniques listed in Section 6.2.3

6.2.4 The following are terms under which State unique funding techniques shall be implemented for all transfers of funds to which the funding technique is applied in section 6.3.2 of this Agreement.

Bi-weekly Estimated Allocation

The State shall request funds at bi-weekly intervals, such that they are deposited in a State account on the dollar-weighted average day of clearance for payroll payments, as specified in section 7.3. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request for each bi-weekly period shall be an estimate based on the related cost allocation of the last three months for which an allocation

has been performed. The bi-weekly requests shall also be adjusted for the difference between estimated and actual allocated expenditure amounts following the actual allocation. This funding technique is interest neutral.

Composite Average Day of Clearance (ADOT)

The Arizona Department of Transportation (ADOT) shall bill FHWA weekly for all major contractor and consultant payments, miscellaneous supplies and service payments, and payroll payments. The funds shall be requested such that they are deposited in a State account on the average day of clearance for the major contractor payment component which accounts for approximately 81% of all program dollars expended by ADOT. Per Federal Regulations, Federal interest may be calculated from the last day of the last billing if billings are weekly. When the State pays out its own funds prior to the approval of project costs (advance construction), the effect on the warrant clearance pattern will be based on the time from the project conversion date to the receipt date.

The request for funds shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The amount of the request shall be for the amount of the Federal share of the disbursement per the specific Federal Project Agreement. This funding technique is interest neutral.

Estimated Clearance/Dollar Weighted Average

The State will use estimated clearance for the first 10 drawdowns. A single additional drawdown will be done on the dollar-weighted average day of clearance for all remaining funds. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. This funding technique is interest neutral.

Modified Payment Schedule Funding - Quarterly Award

The State shall request a prorated share of its quarterly award to be deposited on the average date of clearance for payroll during each pay period of the quarter, as specified in section 7.3. The request shall be made in accordance with the appropriate Federal agency cut-off time specified in Exhibit I. The prorated amount shall be determined by dividing the quarterly award by the number of pay dates in the quarter after first subtracting an estimate of any large and easily identifiable claim payments for costs which have already been incurred, from the total quarterly award. Where the State receives funds under a continuing resolution due to delayed passage of a Federal appropriations act; the amount to be requested on scheduled draw dates shall be based upon estimates of the anticipated award amount. When the actual award amount is established, the remaining requests shall be adjusted to reflect any difference between the estimated and actual amounts. This funding technique is interest neutral.

Modified Zero-Balance Accounting (WIC Food Vouchers)

The State shall request the actual amount paid by the State's fiscal agent, one day in arrears (to be deposited in a State account two days after payment by the State's fiscal agent) for the remainder of the State's fiscal year. For days when the State's fiscal agent will be redeeming food vouchers when the State is unable to make the appropriate request of Federal funds (EG; State holidays), the State shall draw, one business day prior, the normal redemption amount in arrears plus an amount equal to the estimated average daily food draft clearance amount. Any difference between the estimated amount and the actual redeemed amount shall be used to adjust the next request of Federal funds. No interest liabilities shall be incurred nor calculated when this Modified Zero-Balance Accounting Method is properly applied. This funding technique is interest neutral.

Pre-Issuance Grant Anticipation Revenue Vehicle (GARVEE) Bond Repayment

The State of Arizona will request funds for the repayment of GARVEE bonds issued. Funds will be requested for payments of principal and interest on the bonds. Funds may be requested up to 7 business days in advance of the bond

payment. This early drawdown has been approved by FMS and Dept of Transportation for program purposes. This funding technique is interest neutral.

WIC Formula Rebates

The State shall deposit the rebates in a State account and use them to offset the subsequent draw downs for food voucher redemptions until another draw down is necessary to meet redemption demands. Interest earned on rebate money deposited in State accounts shall be used for program purposes. No other liability shall be incurred using this funding technique. This funding technique is not interest neutral.

6.3 Application of Funding Techniques to Programs

6.3.1 The State shall apply the following funding techniques when requesting Federal funds for the component cash flows of the programs listed in sections 4.2 and 4.3 of this Agreement.

6.3.2 Programs

Below are programs listed in Section 4.2 and Section 4.3.

10.551 Supplemental Nutrition Assistance Program

Recipient: Department of Economic Security

% of Funds Agency Receives: 100.00

Component: Payment to Beneficiaries

Technique: Actual Clearance, ZBA - Same Day Payment

Average Day of Clearance: 0 Days

10.553 School Breakfast Program

Recipient: Department of Education

% of Funds Agency Receives: 99.00

Component: Payments to School Districts and Charters

Technique: Pre-Issuance

Average Day of Clearance: N/A

Recipient: Department of Education

% of Funds Agency Receives: 1.00

Component: Payments to Local Agencies

Technique: Pre-Issuance

Average Day of Clearance: N/A

10.555 National School Lunch Program

Recipient: Department of Education

% of Funds Agency Receives: 1.00

Component: Payments to Local Agencies

Technique: Pre-Issuance

Average Day of Clearance: N/A

Recipient: Department of Education

% of Funds Agency Receives: 99.00

Component: Payments to the School Districts

Technique: Pre-Issuance

Average Day of Clearance: N/A

10.557 Special Supplemental Nutrition Program for Women, Infants, and Children

Recipient: Department of Health Services

% of Funds Agency Receives: 52.74

Component: Food Voucher Redemption

Technique: Modified Zero-Balance Accounting (WIC Food Vouchers)

Average Day of Clearance: N/A

Recipient: Department of Health Services

% of Funds Agency Receives: 24.62

Component: Payroll and Other Administrative Costs

Technique: Pre-Issuance

Average Day of Clearance: N/A

Recipient: Department of Health Services

% of Funds Agency Receives: 22.64

Component: WIC Formula Rebate

Technique: WIC Formula Rebates

Average Day of Clearance: N/A

17.225F Unemployment Insurance -- Federal Benefit Account and Administrative Costs

Recipient: Department of Economic Security

% of Funds Agency Receives: 87.77

Component: Payments to Beneficiaries

Technique: Actual Clearance, ZBA - Same Day Payment

Average Day of Clearance: 0 Days

Recipient: Department of Economic Security

% of Funds Agency Receives: 10.01

Component: Payroll and Other Administrative Costs

Technique: Bi-weekly Estimated Allocation

Average Day of Clearance: N/A

Recipient: Department of Economic Security

% of Funds Agency Receives: 2.22

Component: Payments to Beneficiaries

Technique: Pre-Issuance

Average Day of Clearance: N/A

17.225S Unemployment Insurance -- State Benefit Account

Recipient: Department of Economic Security

% of Funds Agency Receives: 100.00

Component: Payments to Beneficiaries from the Unemployment trust fund

Technique: Actual Clearance, ZBA - Same Day Payment
Average Day of Clearance: 0 Days

20.205 Highway Planning and Construction

Recipient: Department of Transportation
% of Funds Agency Receives: 87.00
Component: All other program costs
Technique: Composite Average Day of Clearance (ADOT)
Average Day of Clearance: 5 Days

Recipient: Department of Transportation
% of Funds Agency Receives: 13.00
Component: Garvee Bonds
Technique: Pre-Issuance Grant Anticipation Revenue Vehicle (GARVEE) Bond Repayment
Average Day of Clearance: 7 Days

84.010 Title I Grants to Local Educational Agencies

Recipient: Department of Education
% of Funds Agency Receives: 95.00
Component: Payments to Local Education Agencies
Technique: Pre-Issuance
Average Day of Clearance: N/A

Recipient: Department of Education
% of Funds Agency Receives: 5.00
Component: Payroll and other Admin costs
Technique: Pre-Issuance
Average Day of Clearance: N/A

84.027 Special Education -- Grants to States

Recipient: Department of Education
% of Funds Agency Receives: 95.00
Component: Payments to the School Districts and Contractors
Technique: Pre-Issuance
Average Day of Clearance: N/A

Recipient: Department of Education
% of Funds Agency Receives: 5.00
Component: Payroll and other Administrative Costs
Technique: Pre-Issuance
Average Day of Clearance: N/A

84.389 Title I Grants to Local Educational Agencies, Recovery Act

Recipient: Department of Education
% of Funds Agency Receives: 95.00

Component: Payments to School Districts and Charters

Technique: Pre-Issuance

Average Day of Clearance: N/A

Recipient: Department of Education

% of Funds Agency Receives: 5.00

Component: Payroll and Other Operating Costs

Technique: Pre-Issuance

Average Day of Clearance: N/A

93.558 Temporary Assistance for Needy Families

Recipient: Department of Economic Security

% of Funds Agency Receives: 31.56

Component: Payments to Beneficiaries - EBT

Technique: Actual Clearance, ZBA - Same Day Payment

Average Day of Clearance: 0 Days

Recipient: Department of Economic Security

% of Funds Agency Receives: 31.49

Component: Payments to Beneficiaries - non-EBT

Technique: Average Clearance

Average Day of Clearance: 5 Days

Recipient: Department of Economic Security

% of Funds Agency Receives: 36.95

Component: Payroll and Other Operating Costs

Technique: Bi-weekly Estimated Allocation

Average Day of Clearance: N/A

93.658 Foster Care -- Title IV-E

Recipient: Department of Economic Security

% of Funds Agency Receives: 66.57

Component: Payments to Vendors and Service Providers

Technique: Average Clearance

Average Day of Clearance: 4 Days

Recipient: Department of Economic Security

% of Funds Agency Receives: 33.43

Component: Administrative Costs and Allocated Direct Costs

Technique: Bi-weekly Estimated Allocation

Average Day of Clearance: N/A

93.659 Adoption Assistance

Recipient: Department of Economic Security

% of Funds Agency Receives: 89.15

Component: Payments to Vendors and Service Providers

Technique: Average Clearance
Average Day of Clearance: 4 Days

Recipient: Department of Economic Security
% of Funds Agency Receives: 10.85
Component: Administrative Costs and Allocated Direct Costs
Technique: Bi-weekly Estimated Allocation
Average Day of Clearance: N/A

93.778 Medical Assistance Program
Recipient: Arizona Health Care Cost Containment System
% of Funds Agency Receives: 1.33
Component: Administrative payments to providers for Health Information Technology (HIT) incentive payments (separate HIT grant award)
Technique: Actual Clearance, ZBA - ACH
Average Day of Clearance: 0 Days

Recipient: Arizona Health Care Cost Containment System
% of Funds Agency Receives: 95.65
Component: Programmatic payments to AHCCCS health plans or providers who accept EFT payments or inter-agency transfers
Technique: Actual Clearance, ZBA - ACH
Average Day of Clearance: 0 Days

Recipient: Arizona Health Care Cost Containment System
% of Funds Agency Receives: 1.45
Component: Programmatic payments made to providers who are unable to accept EFT payments when total payments for each unique funding source are greater than \$100,000
Technique: Estimated Clearance/Dollar Weighted Average
Average Day of Clearance: 3 Days

Recipient: Arizona Health Care Cost Containment System
% of Funds Agency Receives: 1.57
Component: Payroll and Other Administrative Costs (separate administrative grant award)
Technique: Modified Payment Schedule Funding - Quarterly Award
Average Day of Clearance: 0 Days

6.3.3 Materiality Exemptions

Agencies exempt from coverage on the basis of materiality:

Arizona Schools for the Deaf and Blind (84.010)
Arizona Supreme Court (93.658)
Arizona Schools for the Deaf and Blind (84.027)
Department of Corrections (84.027)
Department of Juvenile Corrections (84.027)
Department of Health Services (84.027)
Arizona Supreme Court (84.027)

Arizona Department of Administration (20.205)
Department of Game and Fish (20.205)
Department of Public Safety (20.205)
Arizona State Schools for the Deaf and Blind (10.555)
Department of Corrections (10.555)
Department of Juvenile Corrections (10.555)
Department of Corrections (10.553)
Department of Juvenile Corrections (10.553)

7.0 CLEARANCE PATTERNS

7.1 The State shall develop separate clearance patterns for each of the following:

The programs as described in section 4.2 that meet or exceed the threshold.

7.2 The following shall develop the State's clearance patterns:

Arizona Health Care Cost Containment System
Department of Health Services
Department of Economic Security
Department of Transportation
Department of Education

7.3 The sources of data the State shall use when developing its clearance patterns are as follows:

The average clearance days are derived from the verification of clearance patterns done in June 2007 (Foster Care -- Title IV-E), August 2009 (Rehabilitation Services -- Vocational Rehabilitation Grants to States) and April 2010 (Temporary Assistance for Needy Families) using an AFIS report and sampling transactions.

The Arizona Department of Economic Security (DES) maintains its own accounting system which has been programmed to generate a Federal funds request report, based on the date a transaction is entered on their system, and the average clearance patterns described in Exhibit II. Because there is an interface delay between the recording of transactions on DES' system and the production of warrants by the Statewide system, warrants are considered, by the DES report, to be issued two days after transactions are entered. The two days represent a one-day transaction interface (tape) delay, and a one-day warrant distribution delay.

For the components of the State Children's Health Insurance Program (CFDA 93.767) and the Medical Assistance Program (CFDA 93.778) to which Estimated Clearance is being applied, the State shall use the estimated clearance percentages verified in June 2011. The dollar weighted average day of clearance means the day when, on a cumulative basis, 50 percent of funds have been paid out.

In February of 2007, the State applied the Statistically Valid Clearance Patterns developed by FMS to determine that the dollar-weighted average clearance day of payroll is Thursday of the week when payroll is disbursed. This clearance day has been determined as follows:

The State has documented that approximately 91% of all current payrolls are paid by direct deposit. A single warrant is issued to the Bank of America to cover all direct deposit payroll, and this warrant is redeemed on Thursday. Most of the remaining warrants are hand-delivered to employees on Thursday, with the remainder mailed on Thursday. Applying FMS Statistically Valid Clearance Pattern for non-EFT payroll disbursed on Thursdays (3.7 calendar days) to the remaining 9% of payroll, the result is a clearance pattern of .32 calendar days (rounded to 0 days). Therefore, when

applying funding techniques that require Federal funds to be deposited in a State account on the average clearance day of payroll, the State shall request funds to be received by the State on Thursday of the payroll week.

7.4 The State shall use the following methodology when developing its clearance patterns:

When developing each clearance pattern, the State shall track at least 99% of the funds disbursed, from issuance to clearance, for a period of at least three months.

7.5 The State shall identify for each check or warrant (hereafter, check) in the population: (1) the date the check was released for payment; (2) the date the check was debited from the State's account, and, (3) the amount of the check.

7.6 The State shall use the following method to calculate the dollar-weighted average day of clearance:

To determine the number of days each check was outstanding (clearance time), the issue date shall be subtracted from the date the check cleared the State's account.

To determine the percentage of the disbursement paid out each day following issuance, the amount of the checks that clear the State's account each day shall be summed and then divided by the amount of the total disbursement.

For each day following issuance, the clearance time of the checks paid out that day shall be multiplied by the percentage of the total disbursement those checks represent. This product is the clearance factor.

The dollar-weighted average day of clearance for the disbursement shall be determined by summing the clearance factor of each day following the disbursement.

7.7 The State shall adjust each clearance pattern to reflect the dollar-weighted proportion of funds paid out by EFT/Direct payroll, with the following exceptions:

No exceptions.

The State shall also adjust each clearance pattern to reflect:

No additional adjustments.

7.8 Each of the State's clearance patterns is calculated in business days.

7.9 An authorized State official shall certify that each clearance pattern developed by the State accurately corresponds to the clearance activity of the programs to which it is applied. This certification shall be provided to FMS prior to the effective date of the Agreement. The State shall recertify its clearance patterns at least every five years.

7.10 The State shall follow the procedures of 31 CFR 205 if it has actual or constructive knowledge, at any time, that a clearance pattern does not correspond to a program's clearance activity.

8.0 INTEREST CALCULATION METHODOLOGY

8.0.1 Interest will be calculated consistent with the requirements of CMIA.

8.1 General Terms

8.1.1 The State and the Secretary agree that no interest liabilities will be incurred for transfers of funds made in accordance with the procedures specified in section 6 of this Agreement where the following funding techniques are

applied:

Actual Clearance, ZBA - ACH

Actual Clearance, ZBA - Same Day Payment

Average Clearance

Bi-weekly Estimated Allocation

Composite Average Day of Clearance (ADOT)

Estimated Clearance/Dollar Weighted Average

Modified Payment Schedule Funding - Quarterly Award

Modified Zero-Balance Accounting (WIC Food Vouchers)

Pre-Issuance Grant Anticipation Revenue Vehicle (GARVEE) Bond Repayment

8.1.2 The State shall maintain information on disbursements and receipts of funds to verify the implementation of any funding technique and document interest liabilities.

For each disbursement, the State shall be able to identify:

- (1) amount of the issuance
- (2) date of issuance
- (3) date Federal funds are received and credited to a State account
- (4) amount of Federal funds received
- (5) date funds were requested

8.2 Federal Interest Liabilities

8.2.1 A Federal interest liability shall accrue from the day the State pays out its own funds for program purposes to the day Federal funds are credited to a State account. With regard to funds transferred out of the Federal Highway Trust Fund, if a State does not bill at least weekly for current project costs, the Federal interest liability shall not accrue prior to the day the State submits a request for funds.

8.2.2 The State shall use the following method to calculate Federal interest liabilities:

Where an interest-neutral funding technique is being applied to a program, the State will use accepted methods to determine potential interest charges resulting from non-compliance or late Federal funding. Where Average Clearance is being applied, and the State pays out its own funds for program purposes prior to receiving Federal funds, a Federal interest liability will be calculated from the average date of clearance to the date Federal funds are credited to a State account.

8.3 The Unemployment Trust Fund

8.3.1 The State shall use the following method to calculate State interest liabilities on funds withdrawn from the several accounts in the Unemployment Trust Fund:

The State's interest liability on funds withdrawn from the State Account in the Unemployment Trust Fund shall consist of actual interest earnings attributable to such funds while held in a State account, less banking costs associated with such funds. This interest shall be deposited in the State's account in the Unemployment Trust Fund. For funds withdrawn from the Federal Benefit Accounts in the Unemployment Trust Fund, the State's interest liability shall be based on the average daily balance of such funds, multiplied by the 13-week Treasury Bill Rate specified in 31 CFR Part 205.

8.4 Refund Liabilities

8.4.1 The State shall be liable for interest on refunds from the date the refund is credited to a State account until the date the refund is debited from the State account for program purposes. The State shall apply a \$50,000 refund transaction threshold below which the State shall not incur or calculate interest liabilities on refunds. A transaction is defined as a single deposit.

8.4.2 For each refund, the State shall maintain information identifying:

- (1) date a refund is credited to a State account
- (2) date of the subsequent deposit of Federal funds against which the refund is offset
- (3) amount of the refund

8.4.3 The State shall use the following methodology to calculate interest liabilities on refunds:

For programs to which an interest-neutral funding technique is applied (as identified in Section 8.1.1), the State's interest liability shall be based on the difference, in whole days, between the date the refund is deposited in a State account and the date the refund is offset against a subsequent deposit of Federal funds.

For programs to which Pre-issuance Funding is being applied, the State's interest liability will be captured in the State's calculation of interest for each program. Refunds will be included as deposits to the program's account, and subsequent payments from the account will include the amounts of refunds deposited.

8.5 Exemptions

8.5.1 Where more than one State agency is a recipient of Federal funds under a program, a particular State agency's funding may be excluded from interest calculation procedures if the State agency receives an amount of funds less than 5 % of the State's threshold for major Federal assistance programs. Notwithstanding this potential exemption, however, in no case shall less than 90% of a program's total funding be subject to interest calculation procedures.

Proration of calculations: If less than total program funding is subject to interest calculation procedures, the resulting interest liability calculations shall be prorated to 100% of program funding.

8.6 State Interest Liabilities

8.6.1 The State shall be liable for interest on Federal funds from the date Federal funds are credited to a State account until the date those funds are paid out for program purposes.

8.6.2 The State shall use the following method to calculate State interest liabilities on Federal funds:

8.6.2.1 Measuring Time Funds Are Held

Deposit to Clearance:

To determine the total time Federal funds are held, the State shall measure the time between the date Federal funds are received and credit to a State's account and the date those funds are debited from the State's account.

8.6.2.2 Source of Data

Central Accounting System:

The time period from Deposit to clearance shall be determined from information captured by the Arizona Financial Information System (AFIS).

8.6.2.3 Standards Applied

Census (Average Daily Balance):

The average daily cash balance of Federal Funds in the program's account reflects the actual activity of each draw from the date of deposit to the date of issuance or clearance, whichever is pertinent.

8.6.2.4 Calculation Procedure

Average Daily Balance:

$I = ADB \times R$, where

I = State's total interest liability

ADB = Average Daily Balance of cash in a program's account, measured from deposit to clearance

R = Annualized rate equal to the average equivalent yields of 13-week Treasury bills auctioned during a State's fiscal year

9.0 REVERSE FLOW PROGRAMS

The State is not required to cover any reverse flow programs under the terms of this Agreement because the State does not participate in the program.

10.0 INTEREST CALCULATION COSTS

10.1 As set forth in 31 CFR 205.27, interest calculation costs are defined as those costs necessary for the actual calculation of interest, including the cost of developing and maintaining clearance patterns in support of the interest calculations. Interest calculation costs do not include expenses for normal disbursing services, such as processing of checks or maintaining records for accounting and reconciliation of cash balances, or expenses for upgrading or modernizing accounting systems. Interest calculation costs in excess of \$50,000 in any year are not eligible for reimbursement, unless the State provides justification with the annual report.

10.2 The State expects to incur the following types of interest calculation costs:

In addition to the costs stated in section 10.1, the costs associated with maintenance and improvement of current reports used to calculate interest and document clearance patterns. The State may also develop new reports to perform these tasks if necessary.

10.3 The State shall submit all claims for reimbursement of interest calculation costs with its Annual Report in accordance with 31 CFR 205.

11.0 NON-COMPLIANCE

11.1 The provisions of 31 CFR Part 205.29 and 31 CFR Part 205.30 shall apply in cases of non-compliance with the terms of this Agreement.

12.0 AUTHORIZED SIGNATURES

D. Clark Partridge
State Comptroller
State of Arizona

(b) (6)

Signature: _____

Date Signed: 6-27-12

Date Submitted 06/22/2012

Kristine S. Conrath
Assistant Commissioner
Federal Finance
Financial Management Service
U.S. Department of the Treasury

Signature: KSC

Date Signed: 6/29/12

Exhibit I - Funds Request and Receipt Times Schedule State of Arizona

Federal Agency	Payment Type	Request Cut-Off Time	Receipt Window
Agriculture-FNS	ACH	11:59 PM	1 day
Agriculture-FNS	Fedwire	5:45 PM	0 day
Agriculture-FS	ACH	3:00 PM	1 day
Air National Guard	ACH	12:00 PM	15 days
Army National Guard	ACH	12:00 PM	15 days
Commerce-NOAA	ACH	2:00 PM	1 day
Dept of Homeland Security (FEMA)	Fedwire	2:00 PM	0 day
Dept of Homeland Security (ODP)	ACH	2:00 PM	2 days
Dept of Homeland Security (ODP)	Fedwire	2:00 PM	2 days
EPA	ACH	2:00 PM	2 days
EPA	Fedwire	2:00 PM	0 day
Education	ACH	3:00 PM	1 day
Education	Fedwire	2:00 PM	0 day
Energy	ACH	4:00 PM	1 day
Energy	Fedwire	3:00 PM	0 day
HHS	ACH	6:30 PM	1 day
HHS	Fedwire	3:00 PM	0 day
HUD	ACH	6:00 PM	2 days
HUD	Fedwire	3:00 PM	0 day
Interior-FWS	ACH	6:30 PM	1 day
Interior-OSM	ACH	3:00 PM	1 day
Interior-OSM	Fedwire	1:00 PM	0 day
Justice	ACH	2:00 PM	2 days
Justice	Fedwire	2:00 PM	2 days
Labor-Non-UTF	ACH	3:00 PM	1 day
Labor-UTF	ACH	3:00 PM	1 day
Labor-UTF	Fedwire	3:00 PM	0 day
National Science Foundation (NSF)	ACH	8:00 PM	1 day
National Science Foundation (NSF)	Fedwire	5:45 PM	0 day
Social Security Administration	ACH	11:59 PM	1 day
Social Security Administration	Fedwire	5:45 PM	0 day
Transportation (FAA)	ACH	2:00 PM	1 day
Transportation (FHWA)	ACH	12:00 PM	3 days
Transportation (FHWA)	Fedwire	12:00 PM	0 day
Transportation (FTA)	ACH	12:00 PM	1 day
Veterans Administration	ACH	12:00 PM	3 days

Exhibit II - State of Arizona

LIST OF STATE CLEARANCE TIMES

(Rounded Dollar-Weighted Average Day of Clearance)

Clearance Times Where the Timing of A Draw Down Is Based on A Clearance Pattern

CFDA	Program Name	Recipient	%	Component	Technique	Round ed days
10.551	Supplemental Nutrition Assistance Program	Department of Economic Security	100.00	Payment to Beneficiaries	Actual Clearance, ZBA - Same Day Payment	0 Days
10.553	School Breakfast Program	Department of Education	99.00	Patments to School Districts and Charters	Pre-Issuance	N/A
10.553	School Breakfast Program	Department of Education	1.00	Payments to Local Agencies	Pre-Issuance	N/A
10.555	National School Lunch Program	Department of Education	99.00	Payments to the School Districts	Pre-Issuance	N/A
10.555	National School Lunch Program	Department of Education	1.00	Payments to Local Agencies	Pre-Issuance	N/A
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health Services	24.62	Payroll and Other Administrative Costs	Pre-Issuance	N/A
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health Services	52.74	Food Voucher Redemption	Modified Zero-Balance Accounting (WIC Food Vouchers)	N/A
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Department of Health Services	22.64	WIC Formula Rebate	WIC Formula Rebates	N/A
17.225F	Unemployment Insurance – Federal Benefit Account and Administrative Costs	Department of Economic Security	87.77	Payments to Beneficiaries	Actual Clearance, ZBA - Same Day Payment	0 Days
17.225F	Unemployment Insurance – Federal Benefit Account and Administrative Costs	Department of Economic Security	2.22	Payments to Beneficiaries	Pre-Issuance	N/A
17.225F	Unemployment Insurance – Federal Benefit Account and Administrative Costs	Department of Economic Security	10.01	Payroll and Other Administrative Costs	Bi-weekly Estimated Allocation	N/A
17.225S	Unemployment Insurance – State Benefit Account	Department of Economic Security	100.00	Payments to Beneficiaries from the Unemployment trust fund	Actual Clearance, ZBA - Same Day Payment	0 Days
20.205	Highway Planning and Construction	Department of Transportation	87.00	All other program costs	Composite Average Day of Clearance (ADOT)	5 Days
20.205	Highway Planning and Construction	Department of Transportation	13.00	Garvee Bonds	Pre-Issuance Grant Anticipation Revenue Vehicle (GARVEE) Bond Repayment	7 Days
84.010	Title I Grants to Local Educational Agencies	Department of Education	5.00	Payroll and other Admin costs	Pre-Issuance	N/A
84.010	Title I Grants to Local Educational Agencies	Department of Education	95.00	Payments to Local Education Agencies	Pre-Issuance	N/A
84.027	Special Education – Grants to States	Department of Education	95.00	Payments to the School Districts and Contractors	Pre-Issuance	N/A

CFDA	Program Name	Recipient	%	Component	Technique	Rounded days
84.027	Special Education – Grants to States	Department of Education	5.00	Payroll and other Administrative Costs	Pre-Issuance	N/A
84.389	Title I Grants to Local Educational Agencies, Recovery Act	Department of Education	95.00	Payments to School Districts and Charters	Pre-Issuance	N/A
84.389	Title I Grants to Local Educational Agencies, Recovery Act	Department of Education	5.00	Payroll and Other Operating Costs	Pre-Issuance	N/A
93.558	Temporary Assistance for Needy Families	Department of Economic Security	36.95	Payroll and Other Operating Costs	Bi-weekly Estimated Allocation	N/A
93.558	Temporary Assistance for Needy Families	Department of Economic Security	31.49	Payments to Beneficiaries - non-EBT	Average Clearance	5 Days
93.558	Temporary Assistance for Needy Families	Department of Economic Security	31.56	Payments to Beneficiaries - EBT	Actual Clearance, ZBA - Same Day Payment	0 Days
93.658	Foster Care – Title IV-E	Department of Economic Security	33.43	Administrative Costs and Allocated Direct Costs	Bi-weekly Estimated Allocation	N/A
93.658	Foster Care – Title IV-E	Department of Economic Security	66.57	Payments to Vendors and Service Providers	Average Clearance	4 Days
93.659	Adoption Assistance	Department of Economic Security	89.15	Payments to Vendors and Service Providers	Average Clearance	4 Days
93.659	Adoption Assistance	Department of Economic Security	10.85	Administrative Costs and Allocated Direct Costs	Bi-weekly Estimated Allocation	N/A
93.778	Medical Assistance Program	Arizona Health Care Cost Containment System	1.45	Programmatic payments made to providers who are unable to accept EFT payments when total payments for each unique funding source are greater than \$100,000	Estimated Clearance/Dollar Weighted Average	3 Days
93.778	Medical Assistance Program	Arizona Health Care Cost Containment System	1.57	Payroll and Other Administrative Costs (separate administrative grant award)	Modified Payment Schedule Funding - Quarterly Award	0 Days
93.778	Medical Assistance Program	Arizona Health Care Cost Containment System	95.65	Programmatic payments to AHCCCS health plans or providers who accept EFT payments or inter-agency transfers	Actual Clearance, ZBA - ACH	0 Days
93.778	Medical Assistance Program	Arizona Health Care Cost Containment System	1.33	Administrative payments to providers for Health Information Technology (HIT) incentive payments (separate HIT grant award)	Actual Clearance, ZBA - ACH	0 Days

I hereby certify that an authorized State official has certified at least every five years that the "Rounded Days of Clearance" listed in Exhibit 2 of this Treasury-State Agreement:

1. Have been prepared in accordance with the standards provided in 31 CFR 205.20;
2. Accurately represent the flow of Federal funds under the Federal assistance programs to which they apply;
3. Reflect seasonal or other periodic variations in the clearance activities; and,
4. Are auditable.

Date: 6-27-12

Printed Name: D. Clark Partridge

Certifying Signature: (b) (6)

Title: State Comptroller