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ADM Compliance – A Summary of Fiscal Year 2011 Changes

Is your district aware of the changes that have taken place on recording and reporting student membership and attendance for school year 2011? The School Finance Procedures Manual for fiscal year 2010-11 was released by the Arizona Department of Education (ADE) on July 26, 2010. Points of interest include:

- ✓ The number of days per week for school calendar purposes **may not exceed** the type of calendar selected. For example, if the school is on a 4 day week instructional calendar of Monday through Thursday, the school may not additionally select a Friday on any week as a session day. The specific weekdays set for each week need to be consistent throughout the year.
- ✓ Arizona Revised Statutes (A.R.S.) §15-902.02 allows school districts and charter schools to offer 200 days of instruction and have their average daily membership (ADM) calculated based on 200 days. School districts or charter schools that elect to extend their school year to 200 days are **allowed a 5%**

increase to their base level. If interested, the district or charter must:

- Send a letter to ADE requesting that their ADM be calculated based on 200 days of instruction
 - Submit a calendar for the applicable fiscal year for all district or charter school sites that offer instruction based on at least 200 days
 - Budget for the applicable fiscal year based on 200 days by including the 5% addition to the base level amount using the budget forms and work sheets
- ✓ A preschool student must qualify for one or more of the following SPED services to qualify for funding: **HI, DD, VI, PSD** or **SLI**. The student must **also be three years old or within 90 days of the student's third birthday** with board approval. (A.R.S. §15-771(G))

(Continued on p. 2)

Repeal of Expanded 1099 Requirements Passed

In April 2011, the Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011 (HR 4; 1099 Act) was signed into law by President Obama. This act repealed the expanded Form 1099 information report requirements mandated by last year's health care legislation as reported in our January 2011 newsletter. Specifically, the 1099 Act repeals the expansion of the reporting requirement to include payees to corporations, which was to be effective for payments made after Dec. 31, 2011.

(Continued on p. 4)

Pension Plan Accounting and Reporting

by Corey Arvizu, CPA, Audit Partner

The funded status of pension plans has been receiving a lot of attention in the past year. Television, newspaper and online reports have spotlighted the concerns of retirement plans not just in the United States but worldwide. Numerous parties have a role in addressing the challenges which face our country's government pension plans including legislatures, constituents, policy makers, and advisors, as well as both the management and members of the respective plan. Another party that is addressing the matter is the financial reporting standard setter for governments.

(Continued on p. 3)

The Importance of Segregation of Duties

By Marvin M. Mendieta, CPA, Audit Manager

A key element to maintaining strong internal controls in your district that help prevent and detect fraud is the implementation of segregation of duties. Segregation of duties entails separation of specific duties in a given transaction cycle (e.g. cash receipts) so not one person performs all the areas of that cycle. When properly enforced, it creates accountability among employees who are responsible for the specific areas of the cycle and helps minimize collusion.

To ensure segregation of duties is achieved, the following areas should be separated among different employees:

- Authorization/approval
- Recordkeeping
- Custody of assets
- Reconciliation

For example, in the cash receipts cycle, the employee who opens the mail and collects cash should not be responsible for authorizing or recording the transaction in the accounting system. Moreover, the employee preparing the deposit should not be responsible for recording the deposit or preparing the bank reconciliation.

In the cash disbursements cycle, the employee who approves invoices for payment should not be responsible for recording the invoices in the system. In addition, the employee who is responsible for making changes to the vendor master file should not be tasked with authorizing or recording vendor payments. Ideally, one employee should not perform more than one of the above areas to ensure proper segregation of duties.

However, sometimes segregation of duties can prove challenging to some districts with smaller departments and limited number of personnel. Even with fewer employees, it is still critical to separate duties as much as possible as a fraud-deterrent measure. When there are duties that cannot be separated, compensating controls should be implemented.

(Continued on p. 7)

ADM Compliance (Cont'd from Page 1)

- ✓ Arizona Online Instruction (AOI) schools **shall maintain a daily log** for each pupil who participates in AOI. The daily log shall describe the amount of time spent by each pupil participating in AOI on academic tasks. The daily log shall be used by the school district or charter school to qualify the pupils who participate in AOI in the school's average daily attendance calculations pursuant to A.R.S. §§15-901 and 15-808 (E).
- ✓ An AOI school should provide each parent/guardian of a student enrolled in AOI with a copy of the daily log along with instructions for completing the log. The log must be completed daily by the parent/guardian and filed weekly with the school. However, if the school is able to track a student's hours using computer login times and generate a report of those hours, such a report may be used in place of a parent/guardian completed log. All logs must be compiled and maintained by the school.
- ✓ Pursuant to A.R.S. §§15-808(F) and 15-901(A)(2)(b)(v), the ADM of a student enrolled in a school district or charter school and also participating in AOI **may not exceed 1.0**. If the sum of the daily membership or daily attendance for a pupil is greater than 1.0, the sum shall be reduced to 1.0 and shall be apportioned between the school district or charter school and AOI based on the percentage of total time that the pupil is enrolled or in attendance in the respective schools.
- ✓ Laws 2010, chapter 174, section 11 amended A.R.S. §15-808 and amended the definition of the full time student for the purpose of funding for AOI pupils at **95% of the base support level** that would be calculated for that pupil if that pupil were enrolled as a full-time student in a school district or charter school that does not participate in AOI. The definition of the part time student for the purpose of funding for AOI pupils was also amended at **85% percent of the base**

(Continued on p. 4)

Pension Plan Accounting and Reporting (Continued from Page 1)

The Governmental Accounting Standards Board (GASB) provides accounting and reporting guidance for governmental entities. GASB currently has an active project which addresses the reporting of pension plans which may significantly impact the financial statements of almost all governments. The project identified as the *Pension Accounting and Financial Reporting by Employers* addresses a number of issues about how governments account and report for their participation in a government sponsored pension plans.

One of the more controversial issues addressed in the project is whether a government participating in a cost-sharing pension plan should record its prorated share of the plan's unfunded obligation in the government's own financial statements.

If this requirement becomes effective, it would impact nearly all local governments that participate in a cost sharing pension plan. In the State of Arizona nearly all counties, municipalities, and school districts participate in the Arizona State Retirement System (ASRS). ASRS is a cost-sharing pension plan which has an unfunded obligation that would be allocated to each participating employer. The impact of allocating this unfunded obligation could result in governments being required to report tens of millions, and, in some cases, potentially hundreds of millions, of pension obligation liabilities in the governments' financial statements.

(Continued on p. 6)

Puzzler

Decipher the hidden meaning: (Answer on p. 8)

Collar 102°

H&M Announcements

Staff Achievements: H&M announces the following promotions: to Manager – Andrea R. Scarla, CPA, Sara Specht, and Mandy Metcalf; to senior – Joshua Jumper, CPA, Stephanie M. Lopez, CPA, and Cynthia N. Montoya, CPA; and to Staff II: Michael S. Hamilton, CPA, Christopher Goeman, CPA, Laura Flaherty, and Rachel Bosman.

In addition, Michael S. Hamilton recently received his CPA certification in New Mexico and Heather A. Larson & Kaleigh Hotchkiss received their CPA certifications in Arizona.

H&M Partner Featured in GASB 54 Article:

Cherie R. Wright, CPA was recently interviewed for the article “Get ready to report district’s fund balance in a new way” in *Managing School Business* Vol. 16, Issue 3. The article features some implementation tips for GASB 54 from Cherie and is available for download at: <http://www.heinfeldmeech.com/documents/GASB%2054%20article.pdf>.

New Law Temporarily Changes How Arizona School Districts Can Spend Tax-Credit Donations

Signed into law on April 19, 2011 by Governor Brewer, the new law enables districts to use up to 50% of tax-credit money for other items besides extracurricular activities, such as books, classroom supplies, library materials, technology and buses. The law enacts this change only for a period of up to 2 years.

Questions? Contact Tracy McLaughlin, CFE, at tracym@heinfeldmeech.com or (602) 277- 9449, x307, or Karin Smith, at (602) 277- 9449, x327 or karins@heinfeldmeech.com.

ADM Compliance (Cont'd from Page 2)

- support level** that would be calculated for that pupil if that pupil were enrolled as a full-time student in a school district or charter school that does not participate in AOI.
- ✓ For students enrolled in an AOI school, participation in instructional time **during any hour of the day any day of the week** from July 1 to June 30 may count toward the AOI calculation of ADM. Instructional time shall be reported to ADE in the form of **minutes of attendance**.
 - ✓ Students in **grades K-8** that are enrolled in vocational education courses offered by a Joint Technical Education District (JTED) **cannot be counted in a JTED's ADM or attendance**. Additionally, vocational education courses for students in **grades K-8 cannot be funded with JTED monies**. (A.R.S. §15-393(D)(5)) Vocational education students, in grades 9-12, may only be included in ADM or attendance if the vocational education courses are approved by a JTED governing board for central courses and by both a JTED and member school district governing boards for satellite courses. ADM and attendance should not be counted by a JTED for courses that are not part of an approved vocational education program such as general education courses. (A.R.S. §15-393(D)(11))
 - ✓ The ADM per pupil allowed for the centralized campus owned and operated by the JTED is **0.75 per course of at least 150 minutes**. The sum of the daily attendance, as provided in A.R.S. §15-901(A)(6) and the sum of the fractional student enrollment, as provided in A.R.S. §15-901(A)(2)(a), for that pupil in both the member school district and the JTED courses provided at a community college pursuant to A.R.S. §15-393(K) or at a facility owned and operated by a JTED that is not located on a site of a member district **shall not exceed 1.75**. The member school district and the JTED shall determine the apportionment of the daily attendance and the student enrollment for that pupil between the member school district and the JTED except the amount apportioned **shall not**

exceed 1.0 for either entity. (A.R.S. §15-393 (O))

Look to the Arizona Department of Education's School Finance Procedures Manual for additional information and examples of items discussed in this article. The School Finance Procedures Manual can be found at: <https://www.azed.gov/Guidelines/EX-18.pdf>.

Questions? Contact Tracy McLaughlin, Consulting Manager, at (602) 277-9449 extension 307 or tracym@heinfeldmeech.com with any additional questions or assistance with attendance compliance at your district.

(Note: Provisions of House Bill 2385 relating to student membership has been suspended for fiscal year 2012. The procedures followed for fiscal year 2011 will continue to be followed for fiscal year 2012.) **H&M**

Expanded 1099 Repeal (Cont'd from Page 1)

However, the 1099 Act did not repeal the increase in penalties for failure to timely file Form 1099s and failure to provide correct payment statements, both put into effect by the Small Business Jobs Act. Effective January 1, 2011, detailed on the new penalty amounts is available on page 11 of the IRS publication "2011 General Instructions for Certain Information Returns", available for download at: <http://www.irs.gov/pub/irs-pdf/i1099gi.pdf>

Questions? Contact Heather Jones, Consulting Manager, at 602-277-9449, x332 or heatherj@heinfeldmeech.com. **H&M**

Welcome to Our New Clients!

H&M welcomes our new clients:

Chandler Unified School District

We are excited that you have chosen H&M and look forward to helping you achieve new levels of accounting and managerial success!

Spotlight on Our Clients – Karla Soto

Karla Soto is the Finance Director for Nogales Unified School District.

What are your hobbies?

I like to read, spend time with family and friends, and volunteer time to help different organizations. Although my husband and I don't have children who attend the school district anymore, we still support our high school's Band and Mariachi programs by helping them with fundraising, event planning and chaperoning. We thoroughly enjoy being there for the students and doing what we can to guide them as best we can. The experiences I have had with them over the years have been most rewarding and have added great significance to the work I do.

How long have you been in school finance?

Almost 27 years. I started working at the Santa Cruz County School Superintendent's Office in 1984 and came to the Nogales Unified School District in 1996.

What was your professional experience prior to working in school finance?

I only had two jobs prior to working in school finance: at the library while I attended the University of Arizona and for an electronics firm. The only similarity to school finance is that I worked with numbers in both jobs!

What do you find most satisfying about working in school finance?

I feel that the work we do as school finance professionals is extremely important as it ultimately has a positive impact on our children's education. We have to be mindful of that in every decision we make.

What do you feel are the biggest challenges you face working in school finance?


Because almost everything involved in the management of a school district is related to money, the finance director ends up wearing many hats. A good finance director must know how to identify and prioritize the needs of

his or her school district by familiarizing themselves with all aspects of the district, including curriculum, staffing, facilities, etc. The most difficult part is meeting those needs with the resources that are available, especially during tough financial times like we are currently going through. It is quite challenging to do all this with a limited budget; it is especially challenging to fund the needs within various funding sources, some of which have more restrictions and mandates than others, all while staying within budget and compliance and satisfying the desires of numerous interest groups. It is a quite a juggling act!

What are your biggest challenges working in a rural District?

Some of the biggest challenges are that our demographics are vastly different than other districts, which presents unusual circumstances and needs, both academically and managerially. Challenges that I deal with directly include 1) having to travel to attend meetings and training; 2) our inability to attract and retain qualified staff; and 3) purchasing of products for the most part has to be done outside the community, which creates dissension within the business community. Rural communities often lack the infrastructure to attract businesses, which leads to higher prices, less competition and/or limited selection of quality products.

What do you recommend to people entering the profession?

I highly recommend that they take specialized classes in school finance such as accounting, budgeting, risk management, human resources, audit & compliance, transportation, food services, student activities, information technology, and similar offerings. More importantly, they need to also make a commitment to continually educate themselves and staying on top of legislative changes, mandates that impact education in general, and be willing to be held accountable at all levels. 

Pension Plan Accounting and Reporting (Cont'd from Page 3)

Realistically there are valid arguments on both sides regarding whether or not to report such liabilities. Some of the arguments in support of reporting the pension obligations include –

- It represents an obligation of the government
- It will make governments accountable for benefits provided
- It provides the true cost of employee compensation
- It provides information to assess costs to future generations
- The method is currently applied in the private sector

Some of the arguments against reporting the pension obligation are –

- The obligation is difficult to measure and not reliable
- Recognition would result in volatile financial statements
- Funding decisions should be based on long-term assessments
- Unfunded obligations is only one element which provides information as to plan health
- Governments are inherently different than private sector companies


The project is in the GASB's due process stage. GASB issued an Invitation to Comment document in 2009 and a Preliminary Views document in 2010. The purpose of both documents was to solicit input for interested parties on the principle and concepts of the proposed standard. GASB received over 190 comment letters to the Preliminary Views document. The input was diverse and represented both support and disagreement with the liability recognition concept.

In general most retirement systems and government finance officer associations disagreed with the concept, whereas generally groups representing auditors supported the concept. Management of the ASRS did submit a

comment letter which may be viewed on GASB's website along with the other comment letters submitted.


The next phase of the due process is an Exposure Draft of the standard, which is expected to be issued in summer 2011. Final issuance of the standard is planned for issuance in the spring of 2012. The ultimate implementation and requirement to report such pension obligations may not occur until fiscal year 2014. While this timeframe may seem to be in the distant future, the time to provide input on this matter is now. Once the standard is issued governments will have no choice as to whether or how they recognize pension obligations. This GASB project may be monitored on the GASB website at www.gasb.org. Although the comment period for the Preliminary Views document has passed interested parties may still submit comments to GASB for consideration during its deliberation and preparation for the exposure draft.

A useful document which addresses the complexities of this issue is the [Trillion Dollar Gap report](#), issued in February 2010 by the Pew Center on the States. The report provides some insight with respect to the challenges facing pension plans is not a "one size fits all matter". Each State's pension plan is unique, requiring unique and individual responses to the challenges that particular pension plan faces. The report addresses several related pension plan issues of all state retirement plans, including funding levels, policy reform measures, and grading of all fifty states. It should be noted the Arizona State Retirement System is one of only three state plans which is identified as a "solid performer" in both the pension and retiree health care benefit categories.

Please see the "News and Topics" section of our firm's website for links to additional information including the GASB plain language supplement, the ASRS' comment letter to the GASB, and the Pew Center report referenced above. 

Segregation of Duties (Continued from Page 2)

A recommended compensating control is a detailed supervisory review of the related duties performed by the employee of a given transaction cycle. The supervisory review should come from someone who is not involved in the authorization/approval, recordkeeping, custody or reconciliation procedures of the transaction cycle, thereby ensuring the reviewer's independence.

Understanding the importance of implementing segregation of duties is critical in protecting the assets of your district. Ensuring employees are tasked with the appropriate duties and properly separating them will help your district manage and minimize risks of possible fraud. 

Consulting Solutions for your Business Office

Are you up to date on all the recent legislative changes related to Overrides, Average Daily Membership and Tax Credits? Do you worry if any vendors and/or services have reached their procurement limit? Are you maximizing the additional funding provided through the Teacher Experience Index? Do you avoid the concept of grant writing?

Our Consulting Division can train you and key staff members at your District on all of these important business office functions. Contact a member of the team today to learn more about how H&M can best support you.

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H&M University Workshops

Details and links to online registration can be found at www.heinfeldmeech.com/hmu. For more help, contact Susan at 520-742-2611, x107 or hmu@heinfeldmeech.com.

Accounting Skills for Governments & Nonprofits – Part 1 (live workshop)

Location: Phoenix Convention Center

Date: Friday, Sept. 9th

Cost: Clients - \$79 per attendee
Non-clients - \$99 per attendee

AFRs/Financial Coding (live workshops)

Locations/Dates:

Vail (Tucson area) – Tues., Sept. 27th

Mesa Convention Center – Wed., Sept. 28th

Cost: Clients - \$79 per attendee
Non-clients - \$99 per attendee

Accounting Skills for Governments & Nonprofits – Part 2 (live workshop)

Location: Phoenix Convention Center

Date: Friday, Sept. 30th

Cost: Clients - \$79 per attendee
Non-clients - \$99 per attendee

Student Activities/Auxiliary Operations

Locations/Dates:

Vail (Tucson area) – Tues., Oct. 4th

Mesa Convention Center – Wed., Oct. 5^h

Cost: Clients - \$79 per attendee
Non-clients - \$99 per attendee

Special 25th Anniversary Client Pricing!

*For all 2011 workshops, H&M clients paying for one full registration (\$79) can bring two coworkers to the same H&M workshop for **only \$25 each.***

*Site registrations for H&M Webinars only **\$25!***

Upcoming Deadlines

<u>Due Date</u>	<u>Item</u>
July 31	Quarterly Report of Income Tax Withheld (Form A1-QRT) must be filed with the Arizona Department of Revenue (A.R.S. §43-401.C)
Aug. 20	Amount to be raised from primary and secondary property taxes must be fixed, levied & assessed (A.R.S. §§15-992 and 42-304.B)
Before Aug 31 st	PEA/LEA calendar due to the ADE
September 28	Deadline for completion reports to be submitted to ADE for projects ending June 30
October 1	Districts participating in an accommodation school agreement must remit tuition payments to the CSS for accommodation school special education program costs (A.R.S. §15-764.D)
October 15	A copy of the AFR must be furnished to the Supt. of Public Instruction (A.R.S. §15-991.D) School District Employees Report (SDER) due to the ADE
October 18	End of cash management reporting period for all Federal projects
October 31	Contribution and Wage Report (Form UC-018) and State Unemployment Compensation Fund contributions/payments must be submitted to AZ Department of Economic Security (A.A.C. R6-3-1704.B) Quarterly Report of Income Tax Withheld (Form A1-QRT) must be filed with the Arizona Department of Revenue (A.R.S. §43-401.C)
November 15	The AFR (or summary) must be published or mailed to each household (A.R.S. §15-904) <i>(by November 15, or within 30 days of publishing)</i> Districts may apply to the State Board of Education for approval or reapproval for a career ladder program. (Annual reapproval required.)

About Heinfeld, Meech & Co., P.C.

H&M is a Certified Public Accounting firm with offices in Tucson, Phoenix and Flagstaff. We are the recognized leaders in the State of Arizona in the field of school district accounting and auditing.

Our active involvement with national and state associations keep us up-to-date about emerging issues affecting your school district. We offer this free newsletter to you as part of our commitment to providing resources and training to Arizona's school district business personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at www.heinfeldmeech.com.



Answer to Puzzler (Page 3):
"Hot under the collar"

