

Also in this issue

| | |
|----------------------------------|-----|
| HMU Workshops | P.3 |
| Accounting Responsibility | P.4 |
| Single Audit Process – Your SEFA | P.5 |
| IRS News and Updates | P.6 |
| Banking Insurance | P.7 |
| Bond Disclosure Reminder | P.7 |
| Duel in the Desert | P.8 |
| Upcoming Deadlines | P.9 |

Another New GASB Statement – Are You Ready?

by Brian A. Ritschel, CPA, Consulting Manager

In February 2009, the Governmental Accounting Standards Board (GASB) issued *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*. This statement changes how a fund balance is classified on the face of the governmental fund financial statements and refines the definitions for governmental fund types.

Overview: The statement's objective is to improve the usefulness of the governmental fund balance information by providing more clearly defined categories to make the nature of the restrictions more transparent. Also, it clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements between entities.

Currently, governmental fund balances are classified as reserved; unreserved, designated; or unreserved, undesignated. GASB Statement 54 replaces those classifications with nonspendable; restricted; committed; assigned;

and unassigned.


Nonspendable fund balance includes amounts that cannot be spent because they are not spendable in form (i.e., inventories, prepaid items, or long-term notes receivables) or they are legally or contractually required to be maintained intact (i.e., the principal amount of a permanent fund).

Restricted fund balance for governmental funds has the same restrictions as defined in GASB Statement 34 and amended by GASB Statement 46 for proprietary funds and government-wide net assets.

Committed fund balance should only be used to classify amounts that have been "committed" for a specific purpose by formal action (i.e., legislation, resolution, or ordinance) of the highest level of decision-making authority (i.e., Governing Board). Once the action has been taken, the committed funds cannot be used for any other purpose unless the

(Continued on p. 2)

H&M Joins CPA Firm Association

Heinfeld, Meech & Co., P.C. has been chosen for membership in AGN International, Ltd., a worldwide association of independent CPA, accounting and consulting firms. AGN consists of 197 member firms, including 54 firms in North America. As a member of AGN, our firm can access resources for the best, most current information to assist our clients, while maintaining our firm's independence and local ownership. Our firm was selected for membership in the association due to our leadership position in the government and non-profit industries, our commitment to a superior work environment, and our outstanding growth. 

Understanding the Requirements of Time and Effort Reporting

By Marydel Speidell, Audit Manager

Time and effort reporting has been an area where audit findings are common, particularly in the failure to maintain proper documentation to support time spent on Federal programs. This article provides an overview of these requirements to help assist you with maintaining compliance in this crucial area.

In accordance with the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian

(Continued on p. 3)

Another New GASB Statement – Are You Ready? (Cont'd from Page 1)

commitment is rescinded by same type of action that previously committed the funds. The action taken to commit the funds must be taken prior to the end of the fiscal year but the specific amount may be determined in the subsequent period.

Assigned fund balances are those amounts that are set aside by the governing body itself or by another body (i.e., budget or finance committee) or by an official who has been delegated the authority to assign those amounts for a specific purpose by the governing body. The assignment must follow the government's intent for the specific purpose of the individual funds. Therefore, all remaining positive fund balances in the special revenue, debt service and capital projects funds must be classified as assigned. The general fund may have fund balance that is assigned for a specific purpose and fund balance that is unassigned as described below.

Unassigned fund balances are those amounts in the general fund that have not been classified as nonspendable, restricted, committed, or assigned. Any other governmental funds that have a negative fund balance must be classified as unassigned.

On the face of the financial statements, the above classifications can either be displayed in the aggregate per classification or separately in a manner that distinguishes between the major purposes of each classification. If the financial statements present the aggregate amounts, then the detail must be presented in the notes to the financial statements.

The notes to the financial statements should also disclose the policies and procedures that are used in classifying fund balances. Committed fund balances should identify the government's highest level of decision-making authority and the process that the government must perform in establishing and modifying or rescinding a fund balance commitment. Assigned fund balance should identify the body or official authorized to assign amounts to a specific purpose and the policy established by the governing body that authorization is given.

If the government does not have a policy on how to classify the unrestricted fund balance, then it should consider that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Most governments set aside a certain amount of fund balance for emergencies, revenue shortages or other contingencies. The authority to set aside these amounts usually comes from a statute, ordinance, or resolution. The GASB calls these types of funds "stabilization arrangements." For a government to be able to set aside these types of funds, they need to specifically define when these amounts may be used and specify a situation that cannot be expected to occur routinely. For example, identifying funds to be accessed "in an emergency" does not sufficiently detail the circumstance or condition that must be met for the funds to be considered committed. To commit these funds, the government needs to be more specific in defining an emergency.

The second part of GASB Statement 54 revised the definitions for the governmental fund types.

General fund should be used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds must be used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The restricted or committed proceeds should be a substantial portion of the revenues in the fund. Once the restricted or committed proceeds are not a substantial portion of the revenues, then the fund should be discontinued and the fund's remaining sources should be reported in the general fund.

Debt service funds should be used to account for and report current and future financial resources that are restricted,

(Continued on p. 6)

Time and Effort Reporting (Cont'd from Page 1)

Tribal Governments,” time and effort reporting is required to account for the total activity for which an employee is compensated. The purpose of this requirement is to confirm that the percentage of time spent on various activities performed by employees paid from Federal funds accurately depicts the work that has been performed. As a result, this reporting requires *written, after-the-fact documentation* of how employees spent their compensated time on Federal programs.

Before determining time spent on Federal programs, it is important to understand the difference between *payroll distributions* and *effort distributions*. Payroll distributions reflect the allocations of an employee’s salary, while effort distributions reflect the employee’s effort spent on various Federal projects, which is independent of the employee’s salary.


There are two types of certifications that may be used as documentation for employees paid from Federal funds: *semi-annual certifications* or *monthly certifications*.

Semi-annual certifications are required when an employee works solely on a **single** Federal program or cost objective. A cost objective is considered to be a function or activity for which costs are incurred. If an employee meets this requirement, a semi-annual certification must be completed to document that the employee worked solely on that program for the period covered by the certification. These certifications must be signed by the employee or a supervisor who has direct knowledge of the employee’s daily activities.

Monthly certifications are required when an employee works on **multiple** Federal programs or cost objectives. This should be supported by personnel activity reports that reflect actual work performed, rather than budget estimates. In addition, these certifications must be prepared at least monthly and must be signed by the employee.

Understanding the requirements of time and effort reporting, as well as establishing standard procedures to be used throughout the District, will assist with increased compliance regarding time and effort reporting. Further detailed instructions regarding time and effort requirements under OMB Circular A-87 can be found online at:

www.whitehouse.gov/omb/circulars/a087/a087-all.html.

Questions? Contact Marydel at (602) 277-9449, ext 309 or marydels@heinfeldmeech.com. 

H&M University Workshops

Information on our workshops, including 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.

Preparing Your Small School District for a Big Audit (webinar)

Date/Time: Fri., Dec. 4th – 10am to 11am

Cost per site: Clients - \$30; Non-clients: \$50
(unlimited participants per site)

Understanding the Extracurricular Fees Tax Credit (webinar)

Date/Time: Wed., Jan. 20th – 10am to 12pm

Cost per site: Clients - \$100; Non-clients: \$125 (unlimited participants per site)

Capital Assets Accounting

Tucson area (Vail): Tues., Feb. 9th

Mesa: Wed., Feb. 10th

Cost: Clients - \$75; Non-clients: \$95

Student Attendance (ADM) Compliance

Tucson area (Vail): Tues., Feb. 23rd

Mesa: Wed., Feb. 24th

Flagstaff: Thurs., Feb. 25th

Cost: Clients - \$75; Non-clients: \$95

Applying for Accounting Responsibility

By Tracy McLaughlin, Consulting Manager

Did you know that effective November 24, 2009 a school district of any student size can apply to the State Board of Education to assume accounting responsibility? Is your district prepared to apply? Do you know all of the requirements to start the process?

This article will discuss what accounting responsibility means, how a district may apply, and what changes occurred in statute.

Accounting responsibility is defined as the authority for a school district to operate with full independence from the county school superintendent with respect to revenues and expenditures, including allocating revenues, monitoring vouchers, authorizing and issuing warrants and maintaining and verifying records for certification and payroll purposes.

An application for evaluation by the Office of the Auditor General (AG) must be submitted prior to January 1 of the fiscal year *preceding* the fiscal year of implementation *and* before submitting an application to assume accounting responsibility. At a minimum, the evaluation by the AG includes the following:

1. The most recent financial statements audited by an independent certified public accountant (CPA);
2. The most recent report on internal control, report on compliance and uniform system of financial records compliance questionnaire prepared by an independent CPA or procedural review completed by the AG;
3. The working papers of the independent CPA responsible for auditing the school district, if deemed appropriate by the AG; and
4. A procedural review if deemed appropriate by the AG.

Once the evaluation is completed, the Auditor General may recommend approval or denial of accounting responsibility to the State Board of Education. Districts that are approved

by the State Board of Education shall contract with an independent CPA for an annual financial and compliance audit. The AG may reevaluate the school district annually based on the audit to determine compliance with the Uniform System of Financial Records (USFR).

This is new to statute effective November 24, 2009: If permitted by federal law, a school district may convert to a biennial audit schedule if the previous annual audit conducted pursuant to this subsection did not contain any significant negative findings. If a biennial audit of a school district conducted pursuant to this subsection contains any significant negative findings, the school district shall convert back to an annual audit schedule.

The County Treasurer and County School Superintendent must be notified of the intention to apply for accounting responsibility before March 1 of the fiscal year preceding the fiscal year of implementation. Once notified, the County Treasurer shall establish acceptable standards for interface by school districts with the County Treasurer, including specifications for computer hardware and software compatibility and procedures to ensure the capacity of each district for reconciliation of accounts with those of the County Treasurer.¹

Does your district have the staffing resources to devote to the development of this accounting plan? Is there any reason for your district to assume accounting responsibility? Districts under the accounting responsibility perform reconciliation only with the County Treasurer and are able to process warrants independently of the County School Superintendent's Office. If needed, our firm can also assist your district with developing an accounting responsibility plan.

Questions? Contact Tracy at (602) 277-9449, ext 307 or tracym@heinfeldmeech.com. 

¹ ARS § 15-914.01

More on the Single Audit Process – Understanding your SEFA

By Jennifer L. Shields, CPA, CGFM, Audit Partner

In our last issue, we discussed the Single Audit process and what it means to your District. Of course it means more work for both District personnel and the auditors. The Single Audit is a valuable tool used by numerous agencies such as the Arizona Department of Education (ADE), the Office of the Auditor General, and the Federal government. Each year, the Federal government passes millions of dollars to your District, some through the ADE and some that goes directly to your districts. The information reported in the single audit facilitates the consistent gathering and uniform method of reporting by agencies who receive Federal dollars to enable the granting agencies to adequately monitor the dollars they provide.

As discussed in the previous article on the single audit process, your district will be considered either high risk or low risk, depending on the criteria outlined in the Single Audit Act Amendments of 1996. The actual Federal programs that will be tested during any given year of the single audit will be based partly on the risk analysis of each individual program at the district, and the overall risk of the district plays a part in ensuring enough program dollars are tested.

One of the major parts of a Single Audit reporting package is the Schedule of Expenditures of Federal Awards (SEFA). If you have had a single audit previously, then you are no stranger to the SEFA. Basically, the SEFA is a summary of all the grant revenues your district expended during the fiscal year being audited.

Because the requirements for auditor selection of federal programs for testing in any given year start first with the dollar amounts expended, the Schedule of Expenditures of Federal Awards is the cornerstone of any single audit.

Just as your district is required to have internal controls over the financial statements, including the preparation of those financial

statements, the District is required to have internal controls over the SEFA, including its preparation. This means that the District needs to be able to identify for the auditors each and every Federal program received, the amount expended, and must maintain other detailed information to present on the SEFA.

The SEFA requires a District to report the grant name, the Catalog of Federal Domestic Assistance (CFDA) number, the agency that passed the money to the District, grantor numbers or other identifying numbers, and the total amount expended during the fiscal year, including any amounts passed through to subrecipients.

You might be thinking to yourself that is a lot of information. You might also be thinking that you have seen this information requested by ADE each year. You are right on both accounts! The ADE requests your District to submit this information each year to their office. This assists the ADE in performing their oversight responsibilities that are required by the Federal government as a pass-through entity.

Just as you receive a draft of your financial statements each year, you will receive a draft of the SEFA for your review and approval. The American Institute of Certified Public Accountants (AICPA) Governmental Audit Quality Center (GACQ) has put together a practice aid to assist auditors and preparers of the SEFA, which is available to the public at <http://gaqc.aicpa.org/>.

Questions? Contact Jennifer at (602) 277-9449, ext 310 or jennifer@heinfeldmeech.com. 

Welcome to Our New Clients!

H&M welcomes our new client:

Bowie 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!

IRS News and Updates

Updated Reference Guide. In November 2009, the IRS released an update of Publication 963, *Federal-State Reference Guide*. This publication provides governmental employers with detailed information about Social Security and Medicare coverage, and FICA tax withholding issues. Publication 963 also addresses topics such as determination of worker status, public retirement systems, and Section 218 Agreements, as well as employment tax and fringe benefit issues. It also provides contact information for the IRS, the Social Security Administration, and the National Association of State Social Security Administrators. To download or view Publication 963, visit the IRS website www.irs.gov/pub/irs-tege/p963_1109.pdf.

Employment Tax Audits. The IRS recently announced plans to randomly select 6,000 employers across the country for employment tax audits in conjunction with its National Research Program (NRP). Not-for-profit businesses will be among those selected for the audits. While the main stated purpose of this set of audits is to collect data to be used for designing future audits, these audits are also expected to result in tax assessments.

The IRS audits will verify proper classification of employee vs. independent contractors and proper classification of fringe benefits; they will also examine expense reimbursements and officer compensation as well as compare employee & independent contractor records to actual tax return filings. The audits will also examine the accuracy and timeliness of employer-prepared tax forms and related deposits. The auditors will typically examine three years of employment tax records. The audits are expected to begin in November 2009 and will be conducted over a three-year period.

Recommended Changes to Cell Phone Rules. The IRS recently proposed changes to the rules related to employers providing cell phones as a fringe benefit to employees (excludable from taxable wages). The current rules require that employers require employees to maintain records demonstrating that cell phones were used exclusively for business purposes. The proposed changes, however, would simplify this requirement for the employer (and employee) to substantiate the charges as a business-related expense. The IRS was accepting comments regarding the proposed changes until Sept. 4th and they have not yet released final changes to the rules. The proposed changes are available on the IRS website at www.irs.gov/irb/2009-23_IRB/ar07.html. 

GASB 54 (Cont'd from p. 2)

committed, or assigned to principal and interest payments.

Capital projects funds should be used to account for all financial resources restricted, committed, or assigned to capital outlay expenditures, including the acquisition or construction of capital facilities and other capital assets.

This article provides a brief overview of the new fund balance classifications and governmental fund type definitions. The effective date for GASB Statement 54 is for fiscal year 2010-2011 but early implementation is always encouraged.

Questions? Contact Brian Ritschel at (602) 277-9449, ext 327 or brianr@heinfeldmeech.com. 

Puzzler

Decipher the hidden meaning: (Answer on p. 9)

gettingitall

How Much Banking Insurance Do You Have?


By Michael Hoerig, Audit Manager

By now, most people are aware that the Federal Depository Insurance Corporation (FDIC) insures bank accounts up to \$250,000, but did you know that you may have even more insurance protection for your accounts? In addition to the extended FDIC coverage, the Federal government also implemented the Transaction Account Guarantee (TAG) Program.

The TAG program is a component of the Temporary Liquidity Guarantee Program that was adopted by the FDIC in October 2008. It was created to help ensure greater confidence in the U.S. banking system by extending depository insurance to all non-interest bearing accounts in amounts equal to that on deposit. Additionally, the FDIC extended the TAG program reach to also cover Negotiable Order of Withdrawal (NOW) accounts that earn interest at less than .50% and this stipulation includes certain business checking accounts. Together these new legislative changes can result in FDIC-insured monies in excess of \$250,000. For example, if you have \$500,000 in a non-interest bearing account (or NOW account) and \$250,000 in a certificate of deposit, the FDIC will insure the entire \$750,000.

All banking institutions were automatically enrolled during the first 30 days of the program last year, but extended participation is voluntary (at the bank's discretion) and paid by the bank via increased insurance premiums. Thus far, most major banks have elected to continue their participation in the TAG program. The TAG program was recently extended to expire on June 30, 2010 and the expanded \$250,000 coverage is scheduled to expire on December 31, 2013.

Typically deposit insurance disclosures appear in governmental financial statement notes so be sure to check with your banking institution for the exact limits that apply, and to determine the particular accounts that are covered.

For more information on the TAG program or other banking insurance issues refer to the FDIC website (<http://www.fdic.gov>). 


Bond Disclosure Reminder

Continuing bond disclosure is **required** by the SEC for any government issuing bonds of \$10,000,000 or more after 7/3/94. This disclosure supplies the secondary market for government bonds with information on which to base their purchases. The deadline for disclosures is *usually* February 1. *However governments do **not** need to submit their **audited** financial statements by their deadline.* Instead, they may file the AFR before the deadline as long as the audited financial statements are submitted to the repositories *no later than 30 days after they are received.*

Instead of filing directly with the NRMSIRs and SIDs, you may utilize an Internet-based electronic filing system to upload documents. Beginning July 1, 2009, entities should make their secondary market disclosure filings at the MSRB's Electronic Municipal Market Access website. For details, visit MSRB's website at: <http://emma.msrb.org/AboutDataport.aspx>

H&M Announcements

H&M Receives Copper Cactus Award for Best Place to Work: Our firm was honored in October 2009 with the Wells Fargo Copper Cactus Award for Best Places to Work (31-75 employees). Our Managing Partner, Scott W. Kies, accepted the award and thanked all of our staff to contributing to making H&M a fantastic workplace. H&M was also the recipient of this award in 2007.

Staff Achievements: The following staff recently received their CPA certifications: Eugene Park, Staff Auditor II, Melanie Askew, Staff Auditor II, Travis Zander, Staff Auditor II, and Stephanie Lopez, Staff Auditor. 

It's Time for Duel in the Desert Again!

By Eric S. Taylor, CPA, CGFM, Audit Partner

November marks the time of year when people across Arizona start taking sides and debating about who is going to win the "Big Game." On Saturday, November 28th, the University of Arizona (U of A) Wildcats travel to Tempe to clash with the Arizona State University (ASU) Sun Devils, with the winner claiming the Territorial Cup. You can already hear the friendly debates taking place in District offices, bus barns, classrooms and schools all over the State of Arizona. Growing up in Arizona (or even being a more recent transplant!), one is almost required to mark a line in the sand and choose sides. And, if your office is anything like ours, it can get pretty heated this time of year.

Well, if you are not quite in the Territorial Cup mood yet, we are going to help. We continue our tradition of keeping you informed about important Arizona issues by passing along facts and tidbits about the history of the Territorial Cup game and information about the two participating football programs. Hopefully, this will get everyone interested and excited about watching the game and participating in the friendly rivalry.

The First Game. Did you know that the Territorial Cup has been certified by the NCAA as the oldest award given for a rivalry game? The first game was played on Thanksgiving Day, November 30, 1899. The final score was 11-2, and was won by ASU (then called Arizona Territorial Normal School). Their team nickname was the Normals – a far cry from the Sun Devils. After the game, the U of A students treated the students from ASU to a Thanksgiving feast.

Winning Stats. In the 82 times the teams have played, U of A has won 45 times, giving them a slight edge over ASU's 36 victories. For anyone doing the math, that means that they have tied once, in 1987. The biggest margin of victory in the history of the game is a win by the U of A in 1946 with a score of 67-0. Ouch! Last season's game was won by U of A 31-10.


When a team wins the game, that school retains possession of the silver Territorial Cup and displays the Cup on their campus. U of A displays the Cup in the UA Hall of Fame. If ASU wins the Cup back, they will display it at the Luhrs Reading Room in the Hayden Library.



ASU History. Although U of A has the edge in the head-to-head games with ASU, ASU has a successful football history. ASU has finished undefeated in three different seasons and has competed in two Rose Bowl Games. In the 1975 season they finished 12-0 and ended the season ranked #2 nationally. The School's most successful coach was Frank Kush, whose record was 176 wins, 54 losses and 1 tie over 22 seasons at the helm of the Sun Devils. Danny White, considered by many to be the best ASU player, was 32-4 as the Sun Devil quarterback from 1970 to 1973. He won three consecutive Fiesta Bowls, and was the first Sun Devil to be inducted into the College Hall of Fame.



U of A History. U of A has its share of success as well. Although the team has never played in the Rose Bowl, it has played in 13 bowl games. One of U of A's biggest bowl victories is the January 1, 1994 Fiesta Bowl. The Wildcats beat the number 10 ranked University of Miami, Hurricanes 29-0. That gave the U of A its first 10 win season. In 1998 the team's record was 12-1, and it finished ranked #3 nationally. They defeated the University of Nebraska in the Holiday Bowl that season. Dick Tomey is considered by many to be the most successful coach in U of A history. He finished with a record of 95 wins, 64 losses and 4 ties in 14 seasons. Art Luppino, known as "The Cactus Comet", was one of the most successful players in U of A team history. In 1955, he became the first player in NCAA history to lead the nation in rushing twice.

Armed with this information, you should be ready to participate in the debates this year and partake in a great Arizona tradition. Enjoy the game! 

Upcoming Deadlines

| <u>Due Date</u> | <u>Item</u> |
|-----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| December 15 | The publisher's affidavit of publication for the AFR must be filed with the Superintendent of Public Instruction (or no later than 30 days after publication). Revised expenditure budget must be presented at a public meeting. For grants received from ADE, districts should submit a cash management report to ADE for each special project with a budget of \$10,000 or more. Charter schools should submit English Language Learner program participation transactions to ADE. |
| December 18 | End of cash management reporting period for all Federal projects. Revised expenditure budget must be filed with the county school superintendent. |
| December 31 | Comprehensive Annual Financial Reports (CAFRs) due to ASBO International and GFOA for Certificate of Excellence awards |
| January 1 | Districts participating in an accommodation school agreement must remit tuition payments to the county school superintendent for accommodation school special education program costs. |
| January 18 | End of cash management period for all Federal projects |
| January 31 | Schools and districts must furnish each employee with a completed Form W-2 and certain nonemployee payees a completed Form 1099 for the calendar year ended 12/31/09. 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) |
| Feb. 1 | Disclosures for any Government issuing bonds of \$10,000,000 or more after July 3, 1994 may be due. (See article on page 7.) |
| Feb. 15 | Special Education Census should be submitted to ADE English Language Learners (ELL) report due to ADE |

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

H&M is an Arizona-based CPA 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 in national and state associations keep us informed about emerging issues affecting school districts and governments. We offer this free quarterly 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 6):
"Getting it all together"