

Imagine

What we can do together

Heinfeld, Meech & Co., P.C. is an Arizona based CPA firm who specializes in governmental accounting and auditing. We are recognized leaders in this field and are active members of GFOA and the AICPA's Governmental Audit Quality Center.

Since we opened our firm in 1986, our single objective has been our uncompromising commitment to the highest standards of quality and professionalism. Providing quality service to governmental and non-profit clients is our primary objective.

Our dedicated top-quality talent and substantial resources ensure that we stay abreast of emerging issues to serve our clients better. We remain dedicated to our Firm philosophy of "clients first."

Imagine What We Can Do Together is a quick-read digest of information that brings valuable news to you and your organization. If at any time you would like additional information, please contact us to discuss your questions.

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



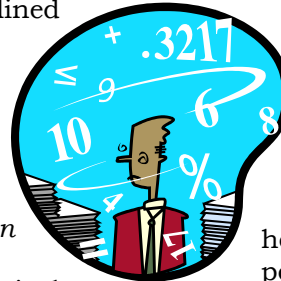
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Getting Ready for the New Statistical Section in Your CAFR

Effective for fiscal year 2005-2006, all Comprehensive Annual Financial Reports (CAFRs) will need to address additional requirements as outlined in the *Governmental Accounting Standards Board (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section* (issued 5/04). The changes in the statistical section are in response to GASB's belief that the authoritative guidance on the statistical section had been framed too narrowly. In addition, GASB sought to incorporate newly available information under GASB Statement No. 34 into the section.



GASB established five broad objectives which are used to organize the Statistical Section.

- 1) Financial trends
- 2) Revenue capacity
- 3) Debt capacity
- 4) Demographics and economics
- 5) Operations

Financial Trends focuses on how the government's financial position has changed over time. GASB Statement No. 44 calls for the presentation of 10 years of data extracted from the government-wide financial statements and the governmental fund financial statements.

(Continued on page 2)

Overview: GASB Statement No. 44 offers a wealth of descriptive and illustrative material designed to minimize the possibility of misinterpretation. GASB believes this approach will increase consistency in practice and result in statistical presentations that are more understandable and comparable. GASB has also incorporated into the statistical section certain data now available for the first time as a result of the implementation of GASB Statement No. 34.

September 2006

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New Statistical Section (Cont'd from Page 1)

- *Information about net assets (10 years):* The three components of net assets – invested in capital assets net of related debt, restricted & unrestricted – should be shown.
 - *Information about changes in net assets (10 years):* The following information should be presented:
 - Expenses by function, program, or identifiable activity;
 - Program revenue by category (charges for services, operating grants and contributions, and capital grants and contributions);
 - Total net (expense) or revenue;
 - General revenues and other changes in net assets by type; and
 - Total change in net assets.
 - Governments should also present individually their most significant charges for service revenue, categorized by function, program, or identifiable activity.
 - *Information about all governmental fund balances (10 years):* Reserved and unreserved fund balances will be shown for the General Fund and for all other governmental funds in the aggregate. It will be necessary to report unreserved fund balances by fund type.
 - *Information about changes in governmental fund balances (10 years):* The following information should be presented for total governmental funds.
 - Revenues by source;
 - Expenditures by function;
 - Other financing sources and uses, along with the total change in fund balances; and
 - Interest and principal components of debt service expenditures.
- Revenue capacity** shows the government's ability to generate its most significant own source revenue. *Own source revenues* are revenues generated by the government itself.
- *Information about revenue base (10 years):* For property taxes, the major components would likely be the different classes of real and personal property showing assessed values and total estimated actual values.
 - *Information about revenue rates (10 years):* Any restriction on a government's ability to raise its direct rates should be disclosed. The schedule also must provide separate rate information for any overlapping governments.
 - *Information about principal revenue payers (current period and 9 years prior):* The list should include 10 principal payers for own-source revenues.
 - *Information about property tax levies and collections (10 years):*
 - Amount of each year's levy
 - Collections as of end of the levy year (both in dollars and as a percentage of the levy)
 - Collections in later years (in dollars)
 - Total collections to date (both in dollars and as a percentage of the levy)
- Debt capacity** provides understanding of a government's debt burden and its ability to issue new debt.
- *Ratios of outstanding debt (10 years):* Each type of outstanding debt should be presented separately (i.e., general obligation bonds, COPs, capital leases), then expressed as two ratios.
 - Total outstanding debt to personal income
 - Total debt per capita
 - *Ratios of general bonded debt (10 years):* General bonded debt (or net general bonded debt) needs to be expressed as two ratios.
 - (Net) general bonded debt to the estimated actual value of taxable property
 - (Net) general bonded debt per capita
 - *Information about direct and overlapping debt (current year):*
 - Outstanding debt for each overlapping government
 - Percentage of overlap for each government
 - The government's proportionate share of each overlapping government's debt
 - Total overlapping debt
 - Total direct debt
 - Total direct and overlapping debt
- (Continued on page 3)*

New Statistical Section (Cont'd from Page 2)

- *Information on debt limitations (most recent year for calculation, 10 years for results):* Governments subject to a legal debt limit must provide information needed to calculate their legal margin for the current year. They also must show debt limit, total net applicable debt, and the legal debt margin for each of the preceding nine years. In addition, one of the following ratios must be presented for all ten years as well: outstanding net debt/debt ceiling or legal debt margin/debt ceiling.

Demographic and economic information

provides context for understanding the trend data. At a minimum, governments should present the following specific indicators:

- *Population (10 years)*
- *Total personal income (if not already presented in connection with debt ratios) (10 years)*
- *Per capita personal income (10 years)*
- *Unemployment rate (10 years)*
- *Information on principal employers (current period and nine years prior):* Governments must identify their 10 largest employers. Likewise, each employer's percentage of total employment also should be presented.

Operating information illustrates the government's own operations and resources – both human and capital. The following three types of information are required to be presented at the same functional level used in the government-wide statement of activities.

- The number of government employees
- Indicators of the demand or level of service
- Indicators of the volume, usage, or nature of capital assets

Narrative Explanations must also accompany the above schedules. Specific requirements for the narrative explanations are as follows:

- Describe the objectives of the different types of information contained in the statistical section.
 - Financial trend data
 - Revenue capacity data
 - Debt capacity data
 - Demographic and economic information
 - Operating information


- Explain basic but potentially unfamiliar concepts.
- Explain how information provided elsewhere may help the reader to better comprehend the data presented in a given statistical table.
- Explain atypical trends and anomalous data that users would not otherwise understand.
- Describe the source of data not extracted from the financial statements.

Presenting Data from Earlier Periods. Two methods are available for presenting data from earlier periods.

- *Restatement or Revision:* Governments are encouraged to restate or revise previous trend data not fully compliant with the new requirements.
- *Prospective Implementation:* The affected schedules need to clearly indicate both the year of the change as well as the impact of the change on data presented for later years.


This article provides a brief overview of the new statistical section required for CAFRs effective with fiscal year 2005-06. For more assistance with the preparation of the statistical section of your CAFR, please contact:

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Legislative Update

A new law enacted by the 2005 Arizona Legislature raises the minimum employer contribution for the Public Safety Personnel Retirement System (PSPRS), Elected Officials Retirement Plan (EORP), and Corrections Officers Retirement Plan (CORP) to five (5) percent beginning in fiscal year 2006-07.

Other changes and updates enacted during the 2006 Arizona Legislative session has been completed may also affect your municipality. We recommend that you read through the summary of the new laws provided on the League of Arizona Cities and Towns' website (www.azleague.org). 

Semi-Annual Time and Effort Certifications

An employee who works and is paid from a single Federal grant is required to complete a semi-annual certification that indicates the employee worked solely on the Federal program for the period covered by the certification. We recommend that the semi-annual certification be completed for the six-month period ending December 31. The certification can be as simple as the following example. **FSM**

I hereby certify that for the period July 1, 2006 through December 31, 2006, 100% of my time and effort was spent on (Name of Federal Program) activities.

Employee Signature: _____

Supervisor Signature: _____

Checking for Suspended or Debarred Vendors

According to federal guidelines, a municipality must verify that a vendor has not been suspended or debarred by the federal government before awarding a contract to that vendor that is in excess of \$100,000 and will be paid from federal monies. An acceptable verification method is to check the General Services Administration's Excluded Parties List System (EPLS) at epls.arnet.gov. The EPLS is an electronic, web-based system that identifies those parties excluded from receiving federal contracts.

In performing your Single Audit, auditors will typically request documentation that the municipality performed a suspension or debarment verification for each vendor contract paid with federal monies in excess of \$100,000. Common examples of such contracts include construction services and capital purchases.

The EPLS web site provides many search options. For specific instructions for performing searches, simply click on the Public User's Manual in the right corner of the web page. In order to document your search, be sure to print the search results screen. **FSM**

Upcoming Deadlines for Municipalities

<u>Due Date</u>	<u>Item</u>
October 31	Political subdivisions must submit to the Auditor General the reports for the previous fiscal year required by the Uniform Expenditure Reporting System (UERS), unless an extension of up to 120 days is requested and approved.
December 31	Comprehensive Annual Financial Report (CAFR) is due to GFOA for Certificate of Excellence award.
February 1	Disclosures are due for any government issuing bonds of \$10,000,000 or more after July 3, 1994.
February 28	The 120-day extension period for ELR submission ends. Reports required by the UERS must be submitted to the Auditor General.
March 31	Fiscal year 2006 annual audit is due to the Federal Clearinghouse for all entities requiring a single audit.

Distinguished Budget Presentation Awards for Your City or Town

The Government Finance Officers Association (GFOA) established the Distinguished Budget Presentation Awards Program in 1984 to encourage and acknowledge exemplary budgeting practices by governmental organizations. The program centers the award on four major functions of budgets: the budget as a Policy Tool, as a Financial Plan, as an Operations Guide, and as a Communications Device.

To receive the award, a budget must be judged proficient in each of the four major award categories by a panel of three independent reviewers. Those budgets that are rated outstanding by all three reviewers in any of the four major award categories receive “especially notable” recognition.

For assistance with the preparation of an award-winning budget, please contact us:

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Highway User Revenue Funds

Did you know that Arizona Revised Statutes (A.R.S.) §9-481(B) requires that a municipality’s audit report include a determination as to whether highway user revenue fund (HURF) monies and any other dedicated state transportation revenue are being used solely for the authorized transportation purposes? This A.R.S. is required for fiscal year 2004 audits and thereafter. Auditors will need to perform tests of compliance over the use of those revenues which may include a separate engagement from the financial statement audit.

For more information, contact Kim Robinson at our Phoenix office at 602-277-9449, ext. 305 or kimr@heinfeldmeech.com. **H&M**

Just Ask H&M

- Q: How is the expenditure limitation determined for a city or town?
- A: The Economic Estimates Commissions calculates the constitutional expenditure limitation for all cities and town by adjusting the municipality’s base-year (generally fiscal year 1979-80) actual expenditures of local revenues for any voter-approval permanent base adjustments or annexations, changes in population, and inflation since the base year.
- Q: What are the required disclosures for GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*?
- A: The required disclosures include Actuarial Methods and Assumptions, a Three-Year Schedule of Funding Progress, and an Annual OPEB Cost and Net OPEB Obligation Schedule. **H&M**

Upcoming Conferences:

GFOAz – Best Practices in Budgeting:

November 13-14, 2006 in Phoenix.
For registration information, visit www.gfoaz.org.

GFOAz – Preparing a CAFR:

November 13, 2006 in Phoenix.
For registration information, visit www.gfoaz.org.

ASCPA – Annual Governmental Accounting Conference:

February 9, 2007 in Phoenix. The Managing Partner for our firm, Gary Heinfeld, is chairing this event, which will include presentations on Audit Committees, Technology Tools, OPEB, Performance Auditing, Fraud Forensic and Audit Deficiencies. To register, visit ASCPA’s online catalog at www.ascpa.com.

GFOAz – 2007 Annual Conference:

March 7-9, 2006 in Tucson. For registration information, visit www.gfoaz.org.

League of Arizona Cities & Towns – 2007 Annual Conference:

August 27-31, 2007 in Scottsdale.
For registration information, visit www.azleague.org.

H&M Workshops

Our firm is pleased to offer a series of workshops designed to provide knowledge of the principles, processes and requirements in areas that are examined by your auditors. These workshops include an overview of the rules, regulations and statutes that apply to each area and will provide your staff with knowledge that can be transferred directly to their jobs.

Information on our workshops, including registration forms, can be found on our website at www.heinfeldmeech.com (Resources > Upcoming Events). You may also contact 520-742-2611, ext 100 or hmu@heinfeldmeech.com for workshop pre-registration.

Municipality Conference

Friday, February 23, 2007 in Phoenix, AZ
Cost: \$75 (includes lunch)

This one-day conference will be taught by instructors with extensive experience with municipality auditing and accounting. More detailed information on topics and registration will be included in a future mailer.

Payroll Potpourri – The What-fors, Dos and Don'ts of Payroll

Tucson area (Vail): Mon., October 16th
Phoenix area (Mesa): Wed., October 18th
Cost: \$75 per attendee (includes lunch)

Topics will include: best practices in payroll, common audit findings, identifying employees vs. independent contractors, FLSA timekeeping, employee reimbursements and W-2's and 1099's.

Registration deadline is Friday, October 6th.

Internal Controls

Tucson area (Vail): Tues., Jan. 23rd
Phoenix area (Mesa): Wed., Jan. 24th
Cost: \$75 per attendee (includes lunch)

Fair Labor Standards Act Compliance

Tucson area (Vail): Tues., Feb. 6th
Phoenix area (Mesa): Wed., Feb. 7th
Cost: \$75 per attendee (includes lunch) **H&M**

Bond Disclosure

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.** *Please note that governments do not need to submit their **audited** financial statements by February 1.* Instead, they may file other financial information before the deadline as long as the audited financial statements are submitted to the repositories *no later than 30 days after they are received.* **H&M**

H&M Practice Aids

Expenditure Limitation Reports (ELR's)

Are you having difficulty understanding all of the rules and regulations related to the preparation of your city/town's ELR? Our firm can help you prepare your annual ELR to submit to the Auditor General's Office.

Government Vehicle Usage

Recent audits of governmental entities have revealed weak internal controls over personal use of government-owned vehicles by employees, government failure to report personal use as a taxable benefit, underutilization of vehicles, and inadequate control of employee access to government-owned fuel. Our firm can help prepare and implement internal controls needed to address this potential problem area at your city/town.

Municipal Court Audits

Did you know that your court is required to have a review by an independent audit every three years? Our firm can provide this service to determine compliance with *Minimum Accounting Standards, Compliance Checklist and Guide for External Reviews by Auditors for Arizona Courts (MAS)*.

For more information on these services, contact:

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