

Also in this issue

Attendance Reporting Changes P.2
Federal Impact Aid Changes P.5
H&M Honored with National
Workplace Award P.5
Federal Impact Aid Changes P.6
Unclaimed Property P.6
Upcoming Deadlines P.7

Balancing Risk and Internal Controls

by Kera Badalamenti, CPA, CGFM, Partner

School business officials are responsible for ensuring that internal controls are established, documented, and properly implemented and monitored. The design and operation of internal controls does not come without a price. It is important to remember that the cost of a control should not exceed the benefit achieved by that control. An effective system of internal controls should be designed to provide *reasonable assurance* for the achievement of the District's goals including reliability of financial information, proper safeguarding of assets, and compliance with applicable laws and regulations. Unfortunately, public perception often times does not recognize the concept of reasonable assurance and instead leans toward an expectation of absolute assurance. The concept of reasonable assurance acknowledges that there is a balance between the acceptable level of risk and the controls necessary to

ensure organizational objectives are met. Internal controls should add value, adequately address risk exposure **and** be cost effective.

Three easy steps to follow are:

1. Identify risks – this process should be comprehensive and consider both internal, external, qualitative and quantitative factors. Considerations should include but are not limited to:
 1. In what areas are we vulnerable?
 2. What could go wrong?
 3. Where does our legal exposure lie?
 4. What areas are subject to higher public scrutiny?
 5. What assets are at risk of misappropriation or misuse?
 6. What is the level of regulation?

(Continued on p. 3)

Updates to the School Finance Procedures Manual

By Juliane M. Jeffers, CPA, Staff Consultant

The School Finance Procedures Manual for fiscal year 2010-11 was released by the Arizona Department of Education on July 26, 2010. Points of interest include:

- ✓ The minimum annual instructional hours required for the year for grades 7-8 and 9-12 (AOI only) have changed. The hours required for **grades 7-8 has been changed to 1000** and the hours required for **grades 9-12 (AOI only) has been changed to 900.**

(Continued on p. 3)

New Ways of Receiving H&M Updates

by Diane Bradley, Partner

H&M has recently launched some new methods for you to obtain regular updates from our firm. First, we have launched a blog specifically for nonprofit organizations. Located at <http://azschoolaccounting.blogspot.com>, this blog will provide you with deadline reminders, announcements of upcoming workshops, and short articles on updates to policies. To receive updates when new posts are added, you can subscribe to the RSS feed, located at <http://azschoolaccounting.blogspot.com/feeds/posts/default> (you can locate it using the Posts hyperlink at the bottom of the blog).

(Continued on p. 2)

Student Attendance Reporting – Changes are Afoot

Student attendance reporting is an area that is ever-changing from year to year. The reporting requirements can make your head spin and if you have any additional programs included at your school, such as TAPBI, keeping track of the constant changes includes a long list of memorandums, policy manuals, statues, and house bills. Hopefully, this article sheds some light on the changes in the areas of TAPBI, high school absence reporting, and various modifications stated in House Bill (HB) 2358.

Arizona Online Instruction (AOI):

Effective July 1, 2009, Laws 2009, Chapter 95, §27, amended Arizona Revised Statutes (A.R.S.) §15-808 and renamed the Technology Assisted Project-Based Instruction (TAPBI) program to Arizona Online Instruction (AOI). Pilot status was removed, which allows the State Board of Education to select additional school districts to participate in the program.

Students enrolled in the AOI program must reside in Arizona. They do not incur absences for purposes of A.R.S. §15-901, and AOI is exempt from the ADM Calculation requirements specified in HB 2385. In addition, the AOI school can choose to continue the use of the parent/guardian daily logs, which are filed with the applicable school on a weekly basis. However, if the school is able to track a student's hours using computer login times and can generate a report of those hours, this report may be used in place of the parent/guardian completed logs.

For further information regarding requirements no longer applicable to AOI schools and more information regarding AOI, see the School Finance Memorandum 10-016 at <https://www.azed.gov/schoolfinance/memos/default.asp> and USFR Memorandum No. 244 at http://www.auditorgen.state.az.us/manuals_schooldistrict.htm.

Absence Reporting for Grades 9-12:

Effective July 1, 2010, there are two Methods for reporting absences for students in grades 9-12. Method 1 as authorized by A.R.S. §15-901(A)(6)(d) and Method 2 as authorized in A.R.S. §15-901(A)(6)(e). For fiscal year 2010-2011, Districts will have to choose one of the

two methods and stay with that method for the full fiscal year.


Method 1 FTE Determination per A.R.S. §15-901(A)(6)(d):

- 1.0 FTE Student – 720 hours of instruction, 20 hours per week, enrollment in at least 4 subjects which are scheduled to meet for 123 hours each during the fiscal year.
- .75 FTE Student – 540 hours of instruction, 15 hours per week, enrollment in at least 3 subjects which are scheduled to meet for 123 hours each during the fiscal year.
- .5 FTE Student – 360 hours of instruction, 10 hours per week, enrollment in at least 2 subjects which are scheduled to meet for 123 hours each during the fiscal year.
- .25 FTE Student – 180 hours of instruction, 5 hours per week, enrollment in at least 1 subject which are scheduled to meet for 123 hours each during the fiscal year.

(Continued on p. 4)

Receiving Updates from H&M (Cont'd from page 1)

This website can be added to your internet browser program or e-mail program (such as Outlook) to receive automatic updates. (Instructions on subscribing to an RSS feed can be found in the help feature of these programs.)


In addition to the blog, we have launched a Facebook page as well as a twitter account. All blog posts will be sent out as updates to both the Facebook page and twitter account. If you "like" our Facebook page, you will become a fan of H&M – you will have access to updates on our page, but our firm will not be able to see any of your personal updates. If you choose to follow us on twitter, you can receive updates via text messaging. To find our Facebook page or Twitter account, please click on one of the logos shown below or the links provided on our home page at www.heinfeldmeech.com/hmu . 



Balancing Risk and Internal Controls (Cont'd from Page 1)

2. Assess risk – identify which risks have the largest potential impact and likelihood of occurrence.
3. Develop control activities – establish actions necessary to manage risks. Control activities should be supported by policies and procedures and can include both preventative and detective controls.

The Arizona Office of the Auditor General and Arizona Department of Education have developed the Uniform System of Financial Records (USFR) to provide the minimum internal control policies and procedures for Arizona school districts and serves as a valuable resource in the development of internal control activities. Districts are required to achieve compliance with the requirements set forth in the USFR; however, alternative control procedures may be established. The consideration of alternative control procedures can help add value to your organization and address concerns of unnecessary levels of bureaucracy, increased costs that do not add value and losses of efficiency.

For information on evaluating your district's existing control procedures while maintaining compliance with the USFR, please contact Tracy McLaughlin at (602) 277-9449, extension 307 or tracym@heinfeldmeech.com. 


Puzzler

Decipher the hidden meaning: (Answer on p. 6)

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Updates to Procedures Manual (Cont'd from Page 1)

- ✓ Laws 2009, Chapter 95, §27, amended Arizona Revised Statutes (A.R.S.) §15-808 and renamed the Technology Assisted Project-Based Instruction (TAPBI) program to Arizona Online Instruction (AOI). **Traditional public schools must be selected by the State Board of Education and charter schools must be sponsored by the State Board for Charter Schools to be online course providers or online schools.** The state boards must jointly develop standards for the approval of online course providers and online schools.
- ✓ JTED's are now referred to as **Joint Technical Education Districts** rather than Joint Technological Education Districts.
- ✓ Vocational education students, in grades 9-12, **may only be included in average daily membership 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.** Average daily membership 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 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 our next issue of *Imagine* for additional information on other issues addressed in the School Finance Procedures Manual that may impact your District. 

Student Attendance Reporting Changes (Cont'd from Page 2)

Per HB 2385, the wording which states “scheduled to meet for 123 hours”, has now changed to “meets for a total of at least 180 hours for a 180 day school year or the instructional hours prescribed by statute.”

The formula for daily absence reporting under Method 1 is the same for both 4 day and 5 day calendars. Absences reported to SAIS are the calculated daily absences round up to the nearest quartile fraction.

Daily Absence Formula for Method 1

$(\text{Number of Classes Attended} / \text{Number of Classes Schedules}) - 1) \times \text{FTE}$

Example 1: If a student is enrolled in 5 classes and attends 3 of those classes the calculation would be as follows:

$(3/5) - 1) \times 1.0 \text{ FTE} = .4 \text{ absence}$ (this would be rounded up to a .5 absence)

Example 2: If a student is enrolled in 3 classes and attends 1 of those classes the calculation would be as follows:

$(1/3) - 1) \times .75 \text{ FTE} = .5 \text{ absence}$ (no rounding necessary)

Method 2 FTE Determination per A.R.S. §15-901(A)(6)(e): Indicates that the attendance of a student may be counted as one-fourth of a day’s attendance for each sixty minutes of instructional time.

If a student receives instruction in an amount of time that is equal to or greater than the instructional time required for the day, the student is considered to be in attendance for the entire day and no absences are reported. If a student receives instruction in an amount of time that is less than the instructional time required for the day in subjects that count toward graduation, refer to the table provided in the Revised School Finance Procedures Manual 2009-2010: <https://www.ade.state.az.us/Guidelines/EX-18.pdf>.

Other changes: In HB 2725, the instructional hour requirement for 7th and 8th graders decreased from 1,068 to 1,000 hours.

In HB 2385, effective June 30, 2011:

- Average daily membership is the total enrollment of fractional students and full-time students, minus withdrawals who are enrolled on September 15, November 15, January 15, and March 15, divided by four.
- School districts are required to report student absence data to the Arizona Department of Education (ADE) at least once every 60 days in session.
- ADE is required to compute and aggregate ADM for the current year no later than April 15th and can no longer aggregate student data after April 15 for the current year.
- ADE must inform school districts of their final ADM counts no later than April 22nd of the current year.
 - School districts are required to use these student counts to determine the ADM for the budget year.

Further information regarding HB 2725 and 2385 can be obtained at <http://www.azleg.gov/Bills.asp?>

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

Welcome to Our New Clients!

H&M welcomes our new clients:

Nadaburg Unified School District
Isaac Elementary 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!

H&M Honored with National Workplace Award for 4th Year


The 7th Annual Great Place to Work® Rankings: 2010 Best Small & Medium Workplaces presented by Entrepreneur® were announced on September 8, 2010 and our firm was once again included on the list. This is the fourth consecutive year that our firm has been ranked on this prestigious list.




According to Scott Kies, Managing Partner: “Our firm’s culture is vital to our continued business success and growth. Every person at our firm is responsible for maintaining and reinforcing our culture values of honesty, excellence, attitude, respect and teamwork. I credit our whole team for making Heinfeld, Meech & Co., P.C. a great place to work every day.”

Our firm was selected as a winner for this list by participating in the Great Place to Work® Institute’s selection process which includes an employee survey and a questionnaire about the firm’s programs and practices. The firm was evaluated on five areas: credibility, respect, fairness, pride and camaraderie.

“Trust-based workplace cultures make a better place to work for employees and create a competitive advantage for the organization,” said Ricardo Lange, President of Great Place to Work® Institute. “All of the companies selected for the Great Place to Work® Rankings: 2010 Best Small & Medium Workplaces Presented by Entrepreneur® have cultivated a trust based work culture and have accomplished a lot of hard work in order to make it onto the list.”

To see the complete list, visit www.Entrepreneur.com/GPTW. To learn more about how to build a high-trust workplace culture, visit www.greatplacetowork.com. 

2010 H&M Community Service Day

On, Friday June 18, 2010, our firm participated in our second annual “Community Service Day”. We take this day out to give back to our community and volunteer as a group to local non-profit organizations. This year, we donated **365** hours to our local food banks in Phoenix, Tucson and Flagstaff. 



H&M University Workshops

Details 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.

Financial Statements 101 for School District (A 2-day workshop)

Date: Thurs.-Fri. November 4-5, 2010

Location: Mesa (EVIT)

Cost: Clients - \$150 (both days)

Non-clients - \$180 (both days)

Federal Impact Aid Changes – Making Decisions for Your District

By CW Payne, CPA, Partner


With the passing of HB 2725, Federal Impact Aid has taken on a whole new look for fiscal year 2010-11. As most of you already know, Impact Aid will have its own fund and cannot be used to fund overrides. In addition, schools will have access to revenues in the year received. With these changes, your District will need to make decisions on how much Impact Aid is transferred into the General Fund to balance the fund and keep property taxes down, what expenditures should be moved from the General Fund into the new Impact Aid fund (if applicable), how much of your Impact Aid fund should be allocated to capital expenditures, and, of course, what fund number should you use.

For the first of these decisions, you can use budget worksheet L and the supplement to worksheet L provided in School Finance Memo 11-001 to help determine how much money you need to transfer into the General Fund. When completing these worksheets, think about how it will affect your tax rate, the overall budget capacity, and cash flow in the General Fund and your new Impact Aid Fund. If you transfer too much into the General Fund, you will end up with cash that you will be unable to spend as in previous years. If you transfer too little, you will end up with cash flow issues in your General Fund.

In looking at expenditures to move into the new Impact Aid Fund, consider your indirect cost rate calculation and capital expenditures. Your indirect cost rate is calculated by using the expenditures in your General Fund coded to object codes Communication (6530) and Tuition (6550), along with function codes Central Services (2500) and Operation and Maintenance of Plant (2600). If you move those expenditures to your new Impact Aid fund, your indirect cost rate will drop. If this happens, the amount of money your District can transfer into the Indirect Cost fund from other federal programs will be reduced in the following year. For the capital expenditures, you will want to look at the amount of funds you have transferred to the Unrestricted Capital Fund in previous years.

This can be done by using the federal impact aid adjustment or cash accumulation method, along with your current and future capital plans.


After addressing the serious questions about the new Impact Aid fund at your District, you can have some fun picking out a new fund number in the 300 range. In questioning some districts about their choice for the new fund number, some said they just took the first available number, while others said they wanted a number that would stand out and easy to identify. A suggestion of mine is fund 357, because it is going to be the new big fund for Impact Aid districts.

Questions? If you have any questions regarding these changes or if your District would like assistance in this area, please contact CW Payne at (928)774-4201 ext 204 or cwp@heinfeldmeech.com. 

Unclaimed Property Requirements

According to A.R.S. §44 Chapter 3, unclaimed property includes but is not limited to items such as money, uncashed checks, drafts, state warrants, uncashed payroll checks, interest dividends or income, savings and checking accounts, safe deposit box contents, credit balances, customer overpayments, unidentified remittances, mutual funds and securities. Property is considered unclaimed when there has been no owner contact for a specified period of time, usually between 1 and 5 years.

The holder of unclaimed property is responsible and required to perform specific procedures, including sending written notice to owner, filing an annual report with the State; and remitting unclaimed property to the State. If you fail to report, you could be liable for late fees and penalties.

If you need any help or assistance with filing you unclaimed property, contact Cherie R. Wright, CPA, Partner at (602) 277-9449, ext 376 or cheriew@heinfeldmeech.com. 

Upcoming Deadlines

<u>Due Date</u>	<u>Item</u>
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.)
November 18	End of cash management reporting period for all Federal projects.
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.

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.

