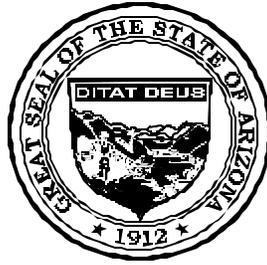


Arizona
Department of Education



Office of the
Auditor General

USFR MEMORANDUM NO. 199

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education

DATE: June 30, 2003

SUBJECT: Guidance on Accounting for the Decrease in Fair Value of Investments in State Treasurer's Local Government Investment Pool 5

In a letter sent November 22, 2002, the State Treasurer's Office notified all participants in its Local Government Investment Pool (LGIP) 5 that the pool experienced a decrease in its fair value related to securities it held in the NPF XII trust that was serviced by National Century Financial Enterprises (NCFE). The NCFE had come under investigation by the Federal Bureau of Investigation, the Securities and Exchange Commission, and various state authorities for possible fraud and violations of federal and state laws.

The Chief Deputy State Treasurer stated in that letter that the Treasurer's Office had established a separate pool to allocate a proportionate share of the \$131 million invested in these securities (which comprised approximately 3.2 percent of the \$4 billion invested in LGIP 5) to pool participants as of November 21, 2002. The Treasurer's Office established November 21, 2002, as the date to determine the percentage of each investor's participation in LGIP 5 because that was the first meeting date of the Arizona State Board of Investment after the bankruptcy filing by NCFE and the date a public notice was made of the termination of dividend payments.

The purpose of this memorandum is to provide guidance to school districts and county school superintendents as to how to account for the district's portion of the decrease in the fair value of this investment. If your district has not received notification from the county treasurer regarding this investment and whether you had monies invested and your proportionate share of the decrease in the fair value of this investment, you should contact the county treasurer to obtain this information.

Depending upon how each county treasurer maintains school district funds, the county school superintendent may have to further allocate, or set aside, a proportionate share of the decrease in the fair value of the investment to each participating school district fund.

To ensure that vouchers are not approved for payment when cash may not be available, an entry similar to the one below should be made in the school district's records and the county school superintendent's records for the school district for each fund affected:

0104	Cash Set Aside Due to Decrease in Fair Value of LGIP 5 (or a similar account description)	XXX
0103	Cash on Deposit with the Treasurer	XXX

To reclassify Cash on Deposit with the Treasurer to Cash Set Aside, so vouchers will not be processed if sufficient cash is not available.

In accordance with generally accepted accounting principles, a decrease in the fair value of investments must be reported as negative revenue. Therefore, the district and/or county school superintendent should record a decrease in the fair value of this investment in each applicable fund in the amount identified by the county treasurer (or county school superintendent).

The following entry records the decrease in the fair value of the investment and should be made in each fund affected:

1530	Net Decrease in the Fair Value of Investments	XXX
0104	Cash Set Aside Due to Decrease in Fair Value of LGIP 5 (or a similar account description)	XXX

To record the net decrease in the fair value of the district's investment in LGIP 5.

If and when any recovery proceeds are received in subsequent fiscal years, the following entry should be made in the Litigation Recovery Fund (Fund 565):

0103	Cash on Deposit with the Treasurer	XXX
1990	Miscellaneous Revenue	XXX

To record subsequent recovery of LGIP 5 investment as current-year local revenues.

Federal and state laws and regulations may require subsequent treatment or handling of the decrease in the fair value of this investment for grant purposes. School districts may need to contact the applicable grantor agencies for guidance on handling and reporting these transactions for those agencies.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.