



**DISTRICTS WITH
FISCAL YEAR 2007
STATUTORY
OPERATING
DEBT**

As of June 30, 2007

**REPORT
TO THE
LEGISLATURE**

January 2008

**As required by
Minnesota Statutes,
Section 123B.83,
Subd. 3**

COMMISSIONER:

Alice Seagren

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1500 Highway 36 West
Roseville, Minnesota 55113

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Upon request, this report can be made available in alternative formats.

ESTIMATED COST OF PREPARING THIS REPORT

This report provides information that the Department of Education already collects as part of its normal business function. The cost information reported below includes the cost of analyzing the data and preparing the report document.

Special funding was not appropriated to cover the costs of preparing this report.

The estimated cost incurred by the Minnesota Department of Education during the preparation of this report is \$474.

**Report on Minnesota School Districts and Charter Schools With Excess
Net Negative Operating Fund Balances at the End of Fiscal Year (FY) 2007**

Minnesota Statutes, section 123B.83, Subd. 3, (2007) states:

If a school district does not limit its expenditures in accordance with this section, the commissioner may so notify the appropriate committees of the legislature by no later than January 1 of the year following the end of the fiscal year.

This report is notification to legislative committees based upon data compiled on January 9, 2007.

The information on traditional districts and charter schools in this report has been drawn from the Uniform Financial Accounting and Reporting Standards (UFARS) data and verified by independent auditor reports. Public schools must report their audited UFARS data for the previous fiscal year to the Minnesota Department of Education (MDE) by November 30. (Minnesota Statutes, section 123B.77, Subd. 3).

Districts and charter schools exceed their expenditure limitations when their Net Unreserved General Unreserved Operating Fund Balance (NUGFB) at year-end (June 30) is a negative amount which exceeds 2.5% of their unreserved/undesignated operating expenditures. Units that exceed this operating debt limitation are in Statutory Operating Debt (SOD).

Fiscal Year 2007 is the seventh year that Statutory Operating Debt was calculated using the Net Unreserved General Fund Balance. The NUGFB is the sum of the Unreserved/Undesignated and Encumbrance accounts of the General Fund. Prior to Fiscal Year 2001, the SOD calculation included the Food Service and the Community Service Funds as well as the Unreserved/Undesignated in the General Fund. The statute was changed to more directly exhibit the general K-12 instructional and educational support activity of a unit. Therefore, the Food Service and Community Funds were removed as well as those reserve accounts in the General Fund that were restricted to specific functions.

One of the objectives of the Financial Management Section of the Department of Education is to provide financial management assistance. Staff members not only monitor and work with traditional districts and charter schools in SOD or in the preparation of recovery plans, but also work with those entities whose financial health is deteriorating. They work closely with units identified with declining financial health to improve their financial position. Staff members recommend best practices in business and financial management and suggest ways to avoid statutory operating debt.

Summary of Findings

The Minnesota Department of Education (MDE) received final Uniform Financial Accounting and Reporting Standards data (UFARS) from school districts and charter schools after that data had been audited by an independent certified audit firm. Minnesota Statutes, section 123B.77, Subdivision 3, requires school districts and charter schools to submit final UFARS data to MDE by November 30, and an audited financial statement to MDE by December 31.

A total of one (1) traditional school district and four (4) charter schools failed to provide a Compliance Table from a final audit report by January 8, 2008. (**Table Three**) The Compliance Table is the indicator that final UFARS data was received by MDE from that reporting unit.

Seventeen (17) traditional school districts and thirteen (13) charter schools did not submit an audited financial statement to MDE by January 8, 2008. They were:

1 Minneapolis	4 McGregor
11 Anoka-Hennepin	23 Frazee-Vergas
31 Bemidji	88 New Ulm
242 Alden-Conger	283 St. Louis Park
424 Lester Prairie	508 St. Peter
513 Brewster	516 Round Lake
748 Sartell-St. Stephen	815 Prinsburg
912 Milaca	2176 Warren-Alvarado-Oslo
2534 BOLD	4011 New Visions
4032 Harvest Preparatory	4044 Heart of the Earth
4064 Riverway Learning	4072 Yankton Country
4092 Watershed Charter	4136 Soul Academy
4154 Recovery School	4157 New Salem Academy
4158 Dakota Area Charter	4165 ELOM Charter
4172 Clarkfield Charter	4174 Pine Grove Leadership

The number of reporting units in SOD increased by two from the previous year level of 22 to the current level of 24. There were 17 traditional districts, one common district and 6 charter schools in SOD at the conclusion of FY2007. (**Table One**). The number of active charter schools in SOD remained the same.

Seven school districts and two charter schools were new to the FY 2007 SOD list. Five school districts and two charter schools were removed from the SOD list for FY2007. (**Table Two**)

The number of reporting school districts decreased from 343 units the previous year to 340 traditional units, while the number of reporting charter schools increased by ten. There were 149 charter schools reporting in Minnesota during FY 2007. Four additional charter schools were closed with only one of those schools having been in SOD as of the date of this report.

Reporting Units in Statutory Operating Debt (SOD)

Table One contains information on the number of active reporting units (traditional school districts, common districts and charter schools) in Statutory Operating Debt. Reporting units reach this level of debt with a negative net unreserved general fund balance that exceeds 2.5% of their yearly general fund operating expenditures for the year.

There were 17 traditional independent school districts, one common school district, and six charter schools that had a net negative unreserved general fund balance exceeding 2.5% of Fiscal Year 2007 unreserved/undesignated general fund expenditures.

Seven of the 17 traditional school districts and two of the six charter schools were new to the SOD list for Fiscal Year 2007.

Table One: Traditional Districts & Charter Schools with a Negative Net Unreserved General Fund Balance Exceeding 2.5% of Yearly General Fund Operating Expenditures for FY 2007

District Information			Unreserved Gen. Fund Balance	General Fund Expenditures	2007 SOD Calc	Final UFARS Rec'd	Hard Audit Rec'd	First Year SOD
No.	Type	Name						
93	1	Carlton	-586,815	5,133,592	-11.43%	X	X	2006
113	1	Walker-Hackensack-Akeley	-587,940	8,665,985	-6.78%	X	X	2007
256	1	Red Wing	-794,799	23,397,170	-3.40%	X	X	2007
277	1	Westonka	-1,099,508	20,309,607	-5.41%	X	X	2007
286	1	Brooklyn Center	-2,102,745	14,385,049	-14.62%	NO	X	2002
316	1	Greenway	-738,142	9,636,813	-7.66%	X	X	1996
371	1	Bellingham	-421,071	943,040	-44.65%	NO	NO	2002
458	1	Truman	-516,999	3,036,389	-17.03%	X	X	2006
487	1	Upsala	-308,915	2,875,869	-10.74%	X	X	2006
495	1	Grand Meadow	-167,780	3,612,460	-4.64%	X	X	2007
544	1	Fergus Falls	-1,392,232	21,102,178	-6.60%	X	X	2007
738	1	Holdingsford	-543,263	7,101,263	-7.66%	X	X	2005
743	1	Sauk Centre	-785,584	8,548,883	-9.19%	X	X	2006
815	2	Prinsburg	-16,267	256,324	-6.35%	NO	NO	2001
2149	1	Minnewaska	-425,632	11,091,553	-3.84%	NO	X	2007
2215	1	Norman County East	-292,012	3,371,934	-8.66%	X	X	2007
2396	1	A.C.G.C.	-390,914	6,886,903	-5.86%	X	X	2005
2580	1	East Central	-638,814	6,530,572	-9.78%	X	X	2006
Charter School Information								
4025	7	Cyber Village Academy	-115,263	1,140,681	-10.10%	X	X	2006
4092	7	Watershed High School	-136,867	1,024,939	-13.35%	X	NO	2006
4100	7	Great Expectations	-18,120	600,188	-3.02%	X	X	2007
4109	7	Sobriety High School	-105,082	2,177,954	-4.82%	X	X	2006
4110	7	Main Street for Performing Arts	-56,237	2,173,747	-2.59%	X	X	2005
4131	7	Lighthouse Academy	-80,114	1,892,222	-4.23%	X	X	2007

Key on Types

Type 1 = Independent School District

Type 2 = Common School District

Type 7 = Charter School

Of the units that were in SOD in FY 2006 and remained on the list in FY 2007, some went significantly deeper into SOD. Those units were Brooklyn Center, Bellingham, Truman and Upsala.

Six of the 24 units in SOD for FY 2007 plan to have the condition of SOD removed from their units by June 30, 2008, including the one common school and two charter schools.

Reporting Units Removing SOD

Table Two contains information on the number and names of traditional school districts and charter schools that removed SOD or were closed as of June 30, 2007.

Five traditional districts and one active charter school removed their SOD condition as of June 30, 2007. New Salem closed without reporting final data as of the date of this report.

Of the 5 districts and one active charter school that removed their statutory operating debt at the end of FY2007, three (3) traditional districts recorded a positive Net Unreserved General Fund Balance in the same year, including Hopkins, Melrose, and Glencoe-Silver Lake.

Of the reporting units that removed the condition of SOD at the end of FY 2007, Melrose Public Schools and New Visions Charter School accomplished that task in one year. Melrose Public Schools removed the condition of SOD in one year and achieved a positive fund balance in that same year.

**Table Two: Traditional Districts and Charter Schools
Out of Statutory Operating Debt as of June 30, 2007**

District		6/30/2006		6/30/2007	
Number and Type	Name	Net Unreserved General Fund Balance	Percent Deficit	Net Unreserved General Fund Balance	Percent Balance
270-1	Hopkins	-3,873,738	-5.08%	900,899	1.24%
623-1	Roseville	-1,386,159	-2.66%	-967,596	-1.82%
739-1	Kimball	-172,570	-3.17%	-80,075	-1.47%
740-1	Melrose	-454,958	-4.08%	238,368	2.25%
2859-1	Glencoe-Silver Lake	-693,280	-5.48%	1,414,484	12.57%
Charter School					
4011-7	New Visions	-115,409	-2.61%	-91,983	-2.00%
4157-7	New Salem	-31,906	-17.99%	-143,630	-15.01%

Units Not Reporting Final UFARS Data

Table Three contains information on the reporting units that did not comply with the statutory deadline to report final UFARS data (November 30, 2007), nor did they comply by the date of the data run for this report, January 9, 2008. One traditional school district and four (4) charter schools did not report final UFARS data according to Minnesota Statutes, Section 123B.77, Subd. 3. All four charter schools are closed.

Table Three: Districts and Charter Schools Not Reporting Audited UFARS Data

Number and Type	Unit Name	Reporting Unit Data 6/30/05		Reporting Unit Data 6/30/06	
		Net Unreserved General Fund Balance	Fund Balance Percent	Net Unreserved General Fund Balance	Fund Balance Percent
1-3	Minneapolis Public Schools	13,426,989	3.55%	26,339,487	7.14%
4123-7	Dakota Area Community School	81,886	15.77%	Closed	Closed
4134-7	F. Scott Fitzgerald	72	.06%	Closed	Closed
4136-7	Soul Academy	5,158	.59%	Closed	Closed
4157-7	New Salem	-31,906	-17.99%	Closed	Closed

Reporting Units with Negative Balances and SOD

Since the SOD calculation was changed to include only Fund 1 expenditures and fund balances, reporting the number of reporting units having a net negative fund balance across Funds 1, 2 and 4 has been discontinued. The new calculation became effective at the conclusion of FY 2001. **Table Four** contains data on the number of reporting units and their fiscal condition.

The lowest number of reporting units (school districts and charter schools) over this period of time was 374 in FY 1997. The largest number of units was 489 units in FY 2007. The increase was due to the opening of new charter schools.

The number of units with Net Negative Unappropriated Operating Balances across the operating funds of 1, 2 and 4 ranged from a low of 27 in FY 1996 to a high of 87 in FY 1993. The number of active entities with a Net Negative Unreserved General Fund Balance increased by eight (8) from FY 2006 to FY 2007 (36 to 44). Of the 20 units with a negative fund balance and are not in SOD, 50% of those units have a negative fund balance that is less than 1%.

The number of active units with SOD was at a low of 15 in FY 1998. The highest number of units was 59 in FY 1994. This year, the number of traditional school districts in SOD increased by 2, whereas the number of charter schools remained the same.

**Table Four: Districts & Charter Schools – Fiscal Years 1990 through 2007
Negative Net Unappropriated Operating Debt and Statutory Operating Debt**

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
School Districts Charter Schools Total	436	430	425	413	401	395	378	374	349 29 378	347 40 387	346 56 402	345 68 416	343 82 411	343 87 431	343 112 455	343 134 477	343 139 482	340 149 489
Net Negative Unappropriated Operating Fund Balance (1,2,4)	71	79	82	87	68	33	27	29	33	52	56	///	///	///	///	///	///	///
Net Negative Unreserved General Fund Balance	New SOD Calc										71	69	55	40	32	31	36	44
Active Units in Statutory Operating Debt	52	47	48	54	59	29	17	19	15	31	33	45	40	25	25	24	22	24