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SCHOOL BUSINESS BULLETIN

Bulletin No. 2

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TO: Superintendent of Schools, Chief School Business Officials, Other Interested Persons

1. Final UFARS Data

The deadline for reporting fiscal year 2003 UFARS data is rapidly approaching. Most districts and charter schools have completed this process. Please take the necessary time to review your district or charter school's Turnaround Reports for accuracy. The Financial Management Section will start providing necessary and appropriate reports to the legislature, state agencies, schools and the general public. Staff members will be contacting local education agencies if irregularities, errors, or omissions are perceived.

2. Financial Profiles

Financial Profiles information is available on the web from FY 1997 through FY 2002. A Financial Profiles 2002 document complete with analysis is also available.

3. UFARS Manual

The FY 2003 and FY 2004 UFARS Manuals are available on the website. Copies of the manual can be obtained from the Financial Management Section office as available for \$20.00.

4. UFARS Compliance Table

The UFARS Compliance Table is available on the Department of Education website. The audited information is to be entered by November 30, 2003. Since November 30 falls on a Sunday this year, the deadline for compliance with the statute is December 1, 2003.

5. Structural Balance Up and Running

After many months of reorganizing the state web site, the sub site for Structural Balance is ready for use. Thanks you for your patience. The site addresses are:

(a) **Input Screens** for use by local districts only

(b) **Public Viewing**

Each superintendent was sent a special 4 digit and 1 symbol password to be used with the input site. If you do not know the password, e-mail Charles Speiker or Debrah Firkus. Debrah can be contacted at 651/582-8775 for questions about the web. If you have questions on the content of the statutory requirement, please contact Charles Speiker at 651/582-8737.

You may also want to continue to use the interactive forms for structural balance that were created last April. Those forms make data entry easy for use with the board of education. One of those forms is an interactive resolution for use at the local level and also for reporting to the state in hardcopy format. If you wish to obtain these forms, please contact Debrah Firkus or Charles Speiker and the Word document will be e-mailed to you.

Hard copy resolutions that contain all calculations and the Balanced Budget Projection Settlement associated with each resolution are to be sent to the following address within 30 days of board adoption:

Minnesota Department of Education
Financial Management Section
Attn: Balanced Budget Projections
1500 Highway 36 West
Roseville, MN 55113-4266

6. Levy Limitation & Certification Reports

The Levy Limitation and Certification Reports for certifying a district's final levy are now on the Department of Education website. Click on the main heading "Data and Reporting." Go to "Payments Reports" to access a district report.

A memo with information about this report is also available on the website. Click on the main heading "Data and Reporting." Then click on "Finance," then "Levy," and then "Certifying Final Levy" to access the memo.

7. UFARS Update

The next update for UFARS changes will take place by December 12, 2003. Check the Minnesota Department of Education's web site in early December and look for the chapters that have a revised December 2003 date.

Two new finance codes will be added, one for the Title II-Part B, Math and Science Partnerships and another one for NCLB, AYP Improvements Grants that will replace the old finance code 403, which will be closed out in FY04.

Additional coding is being discussed to handle the alternative facilities bonding and levy programs that are funded in conjunction with health and safety criteria. Chapter Ten will have various changes and updates to finance codes, including fewer available programs and the removal of Object code 899, miscellaneous expenditures, for all Federal and State Special Education programs.

8. Reconciliation of the EDRS/UFARS Comparison Report

The EDRS/UFARS report is available on the web for districts to view and reconcile the differences between the two data input systems. Here are some hints to help districts reconcile the differences.

1. The column titled "Course Code 640" should equal the amount on the expenditure line "Staff Development." Districts should use course code 640 for all professional development activities paid with Federal Special Education Funds.
2. Objects 430 and 460 will not show up in the UFARS column because EDRS does not recognize these codes. The only instructional supply code acceptable in Special Education is 433, "Individualized Instructional Supplies." Other object codes like 820 and 899 also will not equal any amounts in the EDRS expenditure lines. Missing UFARS object codes will be part of the "Difference" column total.
3. Chargeback codes will not balance with any EDRS expenditure lines. The use of chargeback object codes with salaries (195) and benefits (295) are not permissible in Special Education programs. Object 398 will be part of dissemination total on EDRS. Other chargeback object codes will not appear in the UFARS column and will be part of the "Difference" column total.
4. The only program codes that should be used for Federal or State Special Education expenditures are 030 and 401-420. Program 420 is to be used only when the cost cannot be easily separated by program disabilities. If the cost covers three or more program disabilities, then, and only then, can program code 420 be used.
5. The total amount of the "Difference" column equals the amount of non-reimbursable expenditures. The total of reimbursed expenditures that a district should be claiming is the total of "UFARS Amt" column, after the accounts are reconciled. If the EDRS amount is larger, there is an over-claim of Federal funds. If the EDRS amount is lower, there is an under-claim on expenditures. Federal and State reimbursement will be paid from the district's Special Education EDRS input lines.
6. Use the turnaround report "Expenditure by Finance Code" to compare the latest UFARS data to the latest EDRS/UFARS Comparison Report. NOTE: The EDRS/UFARS Comparison Report is run every Monday. The report will include the latest data from both systems.

9. Fund Types of Agency and Trust

Governments, in particular, school districts, which include charter schools in the state of Minnesota, have several responsibilities to its publics. One of those responsibilities is a fiscal accountability¹, which means that a reporting unit justifies its actions on the basis of its budget and budgetary restrictions. The Governmental Accounting Standards Board (GASB) is an organization that assists in shaping principles that guide the fair and open accounting and disclosure of information to those publics. Generally Accepted Accounting Principles (GAAP) is a set of evolving best or effective practices and principles that guide governmental units in their financial disclosures.

One of those best practices is fund accounting. It is a practice that provides for the disclosure of financial information in a manner that segregates resources by specific purposes. These segregations or categories or funds are generally described in Chapter 1 of the *Uniform Financial Accounting and Reporting Standards (UFARS) Manual*. Fund is defined in a National Council on Governmental Accounting document as:

*A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.*¹

Funds are established for school district use and contained in the *UFARS Manual* in accordance with statutory requirements and Generally Accepted Accounting Principles (GAAP). Of the five categories of funds, one is "Fiduciary." Trust and Agency funds are two of those fiduciary types.

A complete review of these funds and the development of specific accounting treatments are underway. The results will be contained in the UFARS manual shortly. In the meantime, if you wish

to review the progress of the draft document, please contact Charles Speiker and request the Fund article in Word.

10. School Finance Awards

The first hurdle in achieving the **School Finance Award** for FY 04 is now history. There were 393 reporting units that met the September 15 deadline for initial UFARS reporting. When the number of reporting units was compared by region, it was found that the highest percentage of reporting units meeting the statutory deadline came from Region 2. Ninety-Eight (98) percent of the possible reporting units actually met the deadline from that region. Region 4 took a close second by posting a percentage of 96%.

When the same data was analyzed by reporting unit type, it was found that:

- 80% of the regular school districts met the deadline;
- 73% of the charter schools met the deadline; and,
- 76% of all other reporting units met the deadline.

The next criterion to be met was the Publication of the Budget by October 1, 2003 and then on to the final UFARS data and the remainder of the criteria. The full set of criteria is:

A. Compliance with state statutes on selected finance issues

- A.1. Preliminary UFARS data is loaded to MDE by September 15, 2003.
- A.2. The Revenue and Expenditure Budget form is published by October 1, 2003.
- A.3. Final UFARS data to MDE by November 30, 2003. (Comparison Table by 12-1).
- A.4. The FY 03 audit (hard copy) is received at MDE by December 31, 2003.
- A.5. Local board members are trained in financial matters as per statute.

B. Demonstration of fiscal health in the local setting

Each of the characteristics below is considered an indicator of fiscal health. The general fund unreserved account (422) is positive and SOD does not exist.

- B.1. The district has a positive fund balance in each major operating fund (1,2,4).
- B.2. The district has a positive reserve in operating capital (424).
- B.3. The district has policies on positive fund balances and deficit spending.
- B.4. District personnel participate in finance and accounting workshops.

A final run on UFARS data to determine completion of the Comparison Table will be done on December 15.

11. Statutory Operating Debt (SOD) Progress

Each year the final Uniform Financial Accounting and Reporting Standards (UFARS) data is analyzed and a computation is made on the condition of SOD for each district and charter school. According to Minnesota Statutes, section 123B.83 Expenditure limitations,

Subd. 4. Special operating plan. (a) If the net negative unreserved general fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts, as of June 30 each year, is more than 2-1/2 percent of the year's expenditure amount, the district must, prior to January 31 of the next fiscal year, submit a special operating plan to reduce the district's deficit expenditures to the commissioner for approval. The commissioner may also require the district to provide evidence that the district meets and will continue to meet all high school graduation requirements.

An analysis of the preliminary UFARS uploads discloses a significant reduction in the number of SOD districts for the first time in several years. Please note that the tables below are based upon preliminary data. Final UFARS data is due to MDE by December 1, 2003, since November 30, 2003 (statutory deadline) falls on a Sunday.

Table One: Regular School Districts

	2003	2002	2001	2000	1999	1998
Number of Reporting Districts =====>	343	343	345	346	347	349
Number of Districts in SOD =====>	25	33	34	23	19	10
Percent in SOD =====>	7.29%	9.62%	9.86%	6.65%	5.48%	2.87%

Table Two: Charter Schools

	2003	2002	2001	2000	1999	1998
Number of Reporting Charters =====>	90	82	68	56	40	29
Number of Active Charters in SOD =====>	11	8	9	9	12	6
Percent in SOD =====>	11.11%	9.76%	13.24%	16.07%	30.00%	20.69%

Of the 25 districts in SOD for FY03 (as of this writing), two (2) districts were new and 10 districts were removed from SOD. Of the 11 SOD charter schools in FY03, eight (8) schools were new and five (5) schools were removed from SOD. One charter school has not yet reported, which could push the number of SOD charters to twelve.

CREDIT ENHANCEMENT SUMMARY REPORT

	FY04 ¹	FY03	FY02	FY01	FY00	FY99	FY98	FY97	FY96
G.O. Bonds	8	26	51	51	36	41	53	61	53
G.O. Refunding	39	72	37	28	2	63	55	13	23
Aid Anticipation	158	151	124	79	63	55	51	59	80
Tax Anticipation	0	6	5	54	65	57	44	48	60
Capital Equipment	4	7	3	3	3	5	2	13	7
Cert. Of Participation	0	1	2	3	4	2	0	0	0
Number of Issues	209	263	222	218	173	223	205	194	223
Total Amount	881,030,261	1,539,092,419	1,414,839,492	1,363,280,712	846,238,000	1,049,395,000	1,016,432,856	760,682,000	966,101,621
Net Change in Program (from prior year)	-43%	9%	4%	61%	-19%	3%	34%	-21%	
Savings with Program	6,067,931	41,291,945	36,064,524	34,526,604	12,364,768	16,278,778	14,898,715	12,573,431	15,723,796

¹ Year to date numbers only. Tabulations from 1996 to 2003 are closed.

Total indebtedness to the state (on this program) is approximately 10 billion dollars.

13. Members Appointed to Advisory Committee on Financial Management, Accounting & Reporting

The Department of Education announced the appointment of 15 members to the Advisory Committee on Financial Management, Accounting and Reporting. The selection process was difficult, with 38 well-qualified applicants for the 15 positions on the committee. This committee will advise the Department on matters of school accounting, reporting, budgeting and financial management.

The membership of the committee, shown below, represents various segments of the school financial community of Minnesota, including one school district superintendent, six school district business managers, one charter school business manager, four regional accounting coordinators, one CPA specializing in school district and charter school audits, one representative of the Minnesota School Boards Association, and one representative of the Office of the State Auditor. Of the eight members employed by school districts and charter schools, four are from the metro area and four are from greater Minnesota, representing the full range of small, medium and large, urban, suburban and rural districts and schools. Appointments were made for terms of one, two or three years, to enable some new members to be appointed each year. The membership term, as well as employing organization, regional location and number of students (for district and charter school representatives), are shown for each member.

Regular meetings of the full committee will be scheduled approximately every two months, and will be open to the public. An organizational meeting was held on November 18, 2003. At the first meeting, the committee selected Mr. Greg Hein as Chair and Ms. Margo Nash as Vice-Chair. Numerous issues were discussed. The Program Finance Division will provide staff support for the committee and will prepare minutes and summary notes for each meeting. Minutes will be posted to the Department's web site. The Department will work with the committee chair to develop a proposed agenda for each meeting, which will also be posted to the Department's web site prior to the meeting date. Advice and recommendations from the committee will be reported to the Financial Management Supervisor, the Program Finance Director, and the Assistant Commissioner for Finance & Administrative Services or the Commissioner.

**Advisory Committee on Financial Management, Accounting and Reporting
Committee
Appointments - 2003**

Name/Position Type	Organization	Address/Region		Students	Years
Superintendent					
Phil Johnson	Pillager School District	Pillager	5	714	1
Business Manager/Accountant					
1. Barb Anderson	Roseville Public Schools	Roseville	11	6654	1
2. Greg Hein	North St. Paul Public Schools	No. St. Paul	11	12134	2
3. Julane Meyer	Eden Prairie Public Schools	Eden Prairie	11	10457	3
4. Larry Shomion	St. Paul Public Schools	St. Paul	11	45899	2
5. Laura Nelson	Kelliher Public Schools	Kelliher	2	276	2
6. Margo Nash	Faribault Public Schools	Faribault	10	4111	3
Charter School					
Susan Paulson	Rochester Off Campus	Rochester	10	105	1
Regional Coordinators, Coop Service Units & Approved Software					
1. Janna Duffy	Region II	Duluth	3	3	
2. Roger Heiden	Region V	Mankato	9	2	
3. Pam Jenson	Region VII (TIES)	Roseville	11	3	
4. Nancy Ramler	Region III	St. Cloud	7W	1	
CPA/Audit Society					
Darwin Viker	Larson Allen	Austin			2
Board Member/MSBA Representative					
Tiffany Rodning	MSBA	St. Peter			3
State Auditor's Office					
Greg Hierlinger	State Auditor's Office	St. Paul			3

For additional information, please contact:

Dick Guevremont, Supervisor
Financial Management Section
Program Finance Division
(651) 582-8788

Tom Melcher, Director
Program Finance Division
(651) 582-8828

14. Minnesota Public Schools as Tax Exempt

Several inquiries have been made to MDE concerning the tax-exempt status of schools or the “not-for-profit” characteristic of a public school, including charter schools. There have been instances where a vendor from outside the state of Minnesota has refused to honor the school claim of tax-exempt status without specific and written confirmation. Therefore, an appeal was made to the Office of the Secretary of State for references. Mr. Bert Black, a business and legal analyst with the Office, provided a response, most of which is contained in the paragraphs below.

School districts, in their role as political subdivisions of the state created by state law, are public or municipal corporations. However, the word 'corporation' is here used in its literal sense of 'body'. They are not business or non-profit corporations established under Minnesota Statutes 302A or 317A, all of which are "private" corporations.

Only "private" organizations are subject to income tax and therefore are eligible in certain cases for tax-exempt status under IRC 501 (c). The (c)(3) section...is only the most beneficial status, but other statuses under section 501 also qualify as tax-exempt...

In Minnesota, all state agencies and municipalities pay sales tax on purchases as a result of legislation enacted some eleven years ago. This law does not require school districts to pay sales tax - on the contrary, it specifically exempts school districts and other educational institutions, from paying sales tax except on construction materials and car leases. See 297A.70, Subd. 2(a)(2), 297A.70, Subd. 2(b). The section on non-profits being exempt, (and by the way, it isn't all non-profits, just the enumerated ones in that subdivision, which closely parallels 501 (c)(3)) is 297A.70, Subd. 4.

Charter Schools Included

Charter schools are included in this claim of tax-exempt status by virtue of the fact that they are considered, statutorily, a public school. Likewise, the charter school must be organized and operated as a cooperative under chapter 308A or nonprofit corporation under chapter 317A. There is no specific reference to the need for a charter school filing for a 501(c)(3) in Minnesota Statutes, although there may be good reasons for doing so as in the case of an external donor that requires the status or as in the case of the external vendors.

There are specific references to types of 501 (c)'s in the Minnesota Statutes, section 124D.10, Subd.3. Sponsor. Sponsors may be a school board, an intermediate school district school board, or an education district. They could also be a charitable organization under 501 (c) 3 or a nonprofit corporation exempt from federal income tax under section 501 (c) (6) of the Internal Revenue Code of 1986.

15. Los Angeles Schools Implement Junk Food Ban

The Los Angeles Board of Education recently voted unanimously to ban the sale of high fat, sugar and sodium snacks, and substitute healthier fare in all school vending machines and stores as of July 1, 2004. The changes do not extend to cafeteria food, which fall under separate federal nutrition guidelines. Los Angeles Times.

16. Training Expands

There is a renewed emphasis on customer service and the expansion of training for public schools and charter schools. There is a greater outreach to organizations and agencies such as the Minnesota School Boards Association, the Office of the Legislative Auditor, the Minnesota Association of School Business Officials, the Minnesota Secondary School Principals, and various software vendors and regions, to name a few.

There is a more comprehensive program of basic Uniform Financial Accounting and Reporting Standards (UFARS) that contains contributions from other members of the Program Finance Division. In particular, there is an emphasis on revenue and revenue codes as well as Educational Data and Retrieval System (EDRS), the Integrated District Education Aids System (IDEAS) payment system,

and the Electronic Data Reporting System (EDRS) and its relationship to Federal Title Programs and Special Education.

The next UFARS training for school districts and charter schools will be held on February 3-4, 2004. It is a two-day program that begins at 8:00 am and concludes each day by 4:30 pm.