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## SCHOOL BUSINESS BULLETIN

Bulletin No. 25

August 2003

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

### 1. Informational Items – Financial Management

The Financial Management Section is in the process of finalizing the F.Y. 2004 UFARS Manual. The projected date is August 15, 2003. This year, the Department will provide copies of the 2004 UFARS Manual at a cost to cover printing. Copies may be requested at (651) 582-8477.

The Department web site is still under construction. Additional financial reports and information are in the process of being loaded to the site. If you are having trouble finding specific **financial** information, please call our office (651) 582-8788.

#### Budgeting/accounting staff:

|                 |                |
|-----------------|----------------|
| Dick Guevremont | (651) 582-8788 |
| Deb Firkus      | (651) 582-8775 |
| Ken Moos        | (651) 582-8370 |
| Charles Speiker | (651) 582-8737 |
| Mike Enman      | (651) 582-8770 |
| Yvonne Wilkes   | (651) 582-8477 |

2. **Congratulations!** - The first UFARS data upload was received at the Department for F.Y.03. Congratulations to the Oklee School District #627, Ridgeway Community Charter School #4083 and Area Special Education Cooperative #997 for being the first reporting units to send data in for the year. A close second place goes to New York Mills #553, Ada-Borup #2854 and Schoolcraft Learning Charter #4058. Until the new web site is updated, the old upload site is still available.
3. **F.Y. 2003 Audits** – When submitting your F.Y. 2003 financial audit (one copy to the State Auditor's Office and one copy to Department of Education) please check that the following reports are submitted:
  - Single Audit Reports (if Single Audit engagement).
  - Report on Financial Statements.
  - Report on Entity's Internal Control Structure.
  - Report on Entity's Compliance with Laws and Regulations.
  - Corrective Action Plan for all material findings.
  - UFARS Compliance Table.
  - Management Letter from the audit firm to the district or a memo stating there was not one issued.

This year the student activities audit is expected to be more rigorous and preceded by an internal audit. If the activity funds are under board control, a statement that those funds are audited with the General Fund must be included with the F.Y. 03 Financial Audit. The following reports must be included if a separate student activities financial audit is done:

- Report on Financial Statements.
- Report on Entity's Internal Control Structure.
- Report on Entity's Compliance with Laws and Regulations.
- Corrective Action Plan for all material findings.

Ensuring that these items are included with the audits will eliminate unnecessary correspondence.

4. **Audit Changes** - The Office of Management and Budgeting (OMB) released its final revisions to Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." These revisions:
  - a) increase the threshold for an audit from \$300,000 to \$500,000;
  - b) increase the threshold for a cognizant agency for an audit from \$25 million to \$50 million;
  - c) make related technical changes to facilitate the determination of cognizant agency for audit and provide for Federal agency reassignment of oversight agency for audit.

The revisions are effective for years ending after December 31, 2003. Therefore, schools would comply with these revisions for FY2004 and beyond.

For more information please contact:

Cornelia Chebinou, Washington Director  
NASACT  
444 North Capitol Street, Suite 234  
Washington, DC 20001  
(202) 624-5451 Phone (202) 624-5473 Fax

5. **How To Find Indirect Cost Rates** – The Indirect Cost Rate reports are on the department's web page, click on the following tabs administrative services; finance; on the right side of the next screen, click on Budgeting and Accounting; and finally Reports. Choose the appropriate year and find your district in the spreadsheet. Any problems you may have navigating the web site should be directed to Linda Hildebrandt at 651-582-8374.

6. **Credit Enhancement Program Activity** - The credit enhancement program continues to be utilized by the majority of districts in the State of Minnesota. See Table One: Credit Enhancement Summary Report-FY03. The short-term borrowing from FY 02 to FY 03 increased when reviewing Aid Anticipation Certificates and Tax Anticipation Certificates together. However, issues from Tax Anticipation remained level, whereas issues from Aid Anticipation increased from 124 to 151. Overall dollars in the program for Aid and Tax Anticipation increased by approximately \$230,000,000.

Long-term borrowing through use of General Obligation Bonds remained relatively constant from the previous year with an increase of \$2,000,000 in accrued savings due to the lower interest rates provided by participation in the credit enhancement program. The amount of savings for FY 03 will increase slightly as financial advisors send in final payment schedules and calculations from outstanding bond issues for FY 03.

**Table One: Credit Enhancement Summary Report – FY 03**

|                               | FY03 <sup>1</sup> | FY02          | FY01          | FY00        | FY99          | FY98          | FY97        |
|-------------------------------|-------------------|---------------|---------------|-------------|---------------|---------------|-------------|
| <b>G.O. Bonds</b>             | 26                | 51            | 51            | 36          | 41            | 53            | 61          |
| <b>G.O. Refunding</b>         | 72                | 37            | 28            | 2           | 63            | 55            | 13          |
| <b>Aid Anticipation</b>       | 151               | 124           | 79            | 63          | 55            | 51            | 59          |
| <b>Tax Anticipation</b>       | 6                 | 5             | 54            | 65          | 57            | 44            | 48          |
| <b>Capital Equipment</b>      | 7                 | 3             | 3             | 3           | 5             | 2             | 13          |
| <b>Cert. Of Participation</b> | 1                 | 2             | 3             | 4           | 2             | 0             | 0           |
| <b>Number of Issues</b>       | 263               | 222           | 218           | 173         | 223           | 205           | 194         |
| <b>Total Amount</b>           | 1,540,891,419     | 1,414,839,492 | 1,363,280,712 | 846,238,000 | 1,049,395,000 | 1,016,432,856 | 760,682,000 |
| <b>Net Change</b>             | 9%                | 4%            | 61%           | -19%        | 3%            | 34%           | 21%         |
| (from prior year)             |                   |               |               |             |               |               |             |
|                               | 38,760,990        | 36,064,524    | 34,526,604    | 12,364,768  | 16,278,778    | 14,898,715    | 12,573,431  |

<sup>1</sup> Year to date numbers. Tabulations for 1997 to 2002 are closed.

7. **Effects of Energy Needs and Expenditures on U.S. Public Schools** - A National Center for Educational Statistics report, "Effects of Energy Needs and Expenditures on U.S. Public Schools," provides national estimates on energy needs and expenditures of U.S. public school districts. The survey contained estimates of Fiscal Year (FY) 2000 energy expenditures, FY 2001 energy budgets and expenditures, and FY 2002 energy budgets; methods used to cover energy budget shortfalls in FY 2001, and possible reasons for those shortfalls. The survey also explored the cost-saving measures that school districts took in FY 2000, FY 2001, and FY 2002. Finally, the survey examined the extent to which the chief financial officer of the school district (or other district respondent) perceived the school district succeeded in reducing energy usage and cost per unit. The nationally representative sample of approximately 1,000 regular school districts was selected from the 1999-2000 Common Core of Data Local Education Agency Universe file.
8. **Community Education Excess Fund Balance Penalties** - Districts that closed FY 2002 with Community Education fund balances exceeding 25% of their FY 2002 revenue received penalties reducing up to 100% of their FY 2003 General Community Education aid and levy. These penalties were among the more than \$273 million in statewide budget reductions made last February under a Governor's executive order to balance the state's FY 2003 budget.

The 2003 Legislature did not restore those budget cuts but did grant districts the opportunity to apply for a waiver to exceed the FY 2002 closing fund balance limit, as well as to apply for a waiver if they expect to exceed the 25% limit at the close of FY 2003.

Two years ago, the Legislature put caps on ECFE and School Readiness reserves, allowing districts to apply *before* the close of the fiscal year for the commissioner's approval to exceed the limit. The 2003 Legislature enacted similar statutes to limit Community Education programs' fund balances, beginning with balances at the close of FY 2002.

Not all districts' excess reserves may qualify for waiver. Criteria, instructions, and application forms are posted on the Department of Education website under Administrative Services, Finance, Revenue, Community Education/ECFE. Applications for both FY 2002 and FY 2003 must be postmarked by July 25<sup>th</sup>. The Department will review and decide upon districts' requests by August 29th.

Also posted on the MDE website at the same location is a spreadsheet with revised estimates of FY 2003 Community Education aid entitlements, adjusted for excess 6/30/02 fund balance penalties and unallotments. Community Education aid entitlements, including those of districts with no excess reserve penalty, are likely to change, as the Department must pro-rate *all* districts' FY 2003 Community Education aid entitlements to cover the cost of any waivers approved. Final ECFE and School Readiness FY 2003 aid entitlements, reflecting audit corrections and revised revenue data that reduced some districts' excess fund balance penalties, are also included.

### **Special Accounting Instructions**

FY 2003 excess fund balance penalties for Community Education, ECFE, and School Readiness are based upon FY 2002 closing balances. For Community Education, the penalty equals the amount by which the sum of the district's Fund 04 unreserved balance (fund balance account 422) and reserve for community education (fund balance account 431) exceeds 25% of its FY 2002 revenue. The penalty is limited to 100% of the district's FY 2003 General Community Education state aid and levy revenue, and is allocated proportionately between aid and levy.

The aid portion of any FY 2003 penalty will be reflected in the district's final aid entitlement calculation, available in August. The levy portion of the FY 2003 penalty for excess ECFE and Community Education reserves will be made as an adjustment to the pay 04 levy certified this fall, typically recognized in FY 2005.

So that FY 2003 closing balances reflect levy adjustments for an excess fund balance penalty, districts with an excess fund balance penalty need to make a year-end closing entry to defer pay 02 (FY 2003) levy revenue. Districts should report deferred revenues in the amount of the levy portion of the FY 2003 ECFE and/or Community Education excess fund balance penalty.

Preliminary estimates of penalties for excess FY 2002 reserves and FY 2003 unallotments can be found on the MDE website at the address above. Final adjustments to Community Education aid and levy revenue for FY 2003 will be calculated and posted to this web site in late August, after the Department has acted upon waiver requests.

Districts that need to make a journal entry to defer revenue in Community Service and ECFE fund should use the following accounting method.

|                             |                        |
|-----------------------------|------------------------|
| <i>Community Education:</i> |                        |
| Debit Levy Revenue          | 04-005-505-321-001-000 |
| Credit Deferred Revenue     | 04-230-00              |
| <br>                        |                        |
| <i>ECFE:</i>                |                        |
| Debit Levy Revenue          | 04-005-580-325-001-000 |
| Credit Deferred Revenue     | 04-230-00              |

- 9. Maximum Allowable Wage Reclassification-Food Service** - The Food and Nutrition Service of the Department of Education has calculated the average hourly wage for public school food service directors in Minnesota. The allowable hourly wage reclassification for 2002-2003 is \$20.08. This is the maximum rate at which the labor of a Superintendent or Fiscal Manager, who is performing the duties of a Food Service Director, can be charged back to the food service fund.

**10. Food Service Fund Balances** - If a deficit in the Food Service fund exists on June 30, and if that deficit is not eliminated by operations during the following year, it must be eliminated by a permanent fund transfer from the General Fund. As an alternative to a fund transfer, a district may incur a deficit for up to three years without making the permanent transfer. This deficit may occur only if the district submits to the Minnesota Department of Education, Food and Nutrition Service, by January 1 of the second fiscal year, a plan for eliminating the deficit at the end of the third fiscal year. MN Statutes 124D.111 and Federal 7CFR 210.14 & 210.19

If a deficit accrues in the school food service fund during the period in which the school district contracts with a food service management company, the deficit must be eliminated by a payment from the food service management company in the year that the deficit accrues. The food service management company only pays the accrued deficit for the years they have the contract.

If the food service fund shows excess net cash resources, federal regulations allow Food and Nutrition Service to take actions including:

- Require the school food authority to improve food quality or take other actions designed to improve the nonprofit school food service.
- Require the school food authority to reduce the prices charged for lunches
- Adjust program reimbursements paid to the school food authority.

The Food Service excess net cash resource is calculated by dividing total expenditures as reported in UFARS by 10 months for an average per month expenditure. The average per month expenditure is multiplied by 3. A school food authority must limit its net cash resources to an amount not exceeding three months' average expenditures for the nonprofit school food service, unless a higher amount has been approved by Food and Nutrition Service.

If you have questions about these requirements, please contact Bev Michener 651-582-8537 or Ken Moos 651-582-8370

## **11. Food and Nutrition Service Notice**

**Date:** May 30, 2003

**To:** SPONSORING AUTHORITIES of School Nutrition Programs  
Milk Programs

**From:** Mary Begalle, Director  
Food & Nutrition Service

**Subject:** Legislative Changes to State Funding for School Breakfast and Kindergarten Milk

The education finance bill passed by the Minnesota Legislature and signed into law by the Governor provided for the following changes to state funds for School Breakfast Program and Minnesota Kindergarten Milk Program. (State reimbursements for school lunch were not affected.)

All changes are effective July 1, 2003.

- **Fast Break to Learning Breakfast Program**  
The Fast Break to Learning breakfast program was repealed. \$747,000 was appropriated to pay the final 17% for school year 2002-03.
- **Increase of "Regular" Breakfast Reimbursement/ Program Simplification**  
Some of the funding from the repealed Fast Break to Learning program was redirected in order to increase the regular reimbursements for school breakfast. All schools (regardless of eligibility for federal Severe Need breakfast reimbursements) will now receive the same state breakfast reimbursements:

55 cents for paid breakfasts and 30 cents for reduced-price breakfasts.

This simplifies the eligibility requirements and payment matrix for state breakfast reimbursements.

Compared to regular (non-Fast Break to Learning) school breakfast reimbursements in school year 2002-03, this is an increase of 49.9 cents per paid breakfast and an increase of 24.9 or 30 cents per reduced-price breakfast (depending on whether the school qualified for federal Severe Need reimbursement in 2002-03).

- **Free Breakfasts for Students Who Qualify for Reduced-Price Breakfasts**

The law increased the state reimbursement rate for reduced-price breakfasts to 30 cents in order to replace the usual student charge for reduced-price meals. With the additional revenue, schools are prohibited from charging any amount for breakfasts served to students who qualify for reduced-price breakfasts.

(Meals served to students qualified for reduced-price breakfasts must still be claimed in the reduced-price category on the monthly claim so that the appropriate rates of state and federal reimbursements are applied.)

- **Minnesota Kindergarten Milk Program**

The law now fixes the Minnesota Kindergarten Milk Program (MKMP) reimbursement rate at 9 cents per ½ pint of milk served to kindergarten students. This is a reduction from 14 cents paid in school year 2002-03. The law adds clarifying language that milk served as part of school lunch or breakfast may not be claimed for MKMP reimbursement.

- **Payment of State Aids**

The law updates statutory references so that state aids for school lunch, breakfast and kindergarten milk are paid 100 percent in the current year.

- **Appropriations – School Breakfast and Kindergarten Milk\***

| Category   | School Year 2003-04 | School Year 2004-05 | Total for Biennium |
|--|---------------------|---------------------|--------------------|
| <i>FNS forecast based on existing law for School Breakfast (including Fast Break to Learning) &amp; MKMP</i> | \$6,445,000         | \$6,969,000         | \$13,414,000       |
| <i>Legislative appropriation for School Breakfast (Fast Break to Learning repealed) &amp; MKMP</i>           | \$3,088,000         | \$3,217,000         | \$6,305,000        |
| Difference   | (\$3,357,000)       | (\$3,752,000)       | (\$7,109,000)      |

\* This chart compares school breakfast and kindergarten milk appropriations authorized for the upcoming biennium (school years 2003-04 & 2004-05) to FNS forecasts of the appropriations that would have been required to fund the programs under existing law. FNS forecasts have been rounded to the nearest thousand dollars.

**12. USDA Recall** - The USDA's recall of commodity diced chicken from districts this past spring (April 2003) has prompted questions on how to handle the accounting for the lost entitlement value of the commodity and the costs incurred by the districts.

The entitlement value of the chicken will be added to school year 2003 - 2004 total commodity entitlement, for future commodity requests. Reimbursable costs for shipping, handling, storing, and/or destroying the diced chicken should be tracked and reported to the Minnesota Department of Education, Food and Nutrition Service (FNS). Information from FNS has been sent to districts explaining this procedure.

The district's total cost for shipping, handling, storing, and/or destroying the diced chicken will be reimbursed by USDA to the district in FY04. The cash reimbursement should be considered miscellaneous revenue in the food service fund. This revenue will offset the expenditures from the prior year.

### 13. Statement of Position on Car Allowance and Mileage Reimbursement –

#### OFFICE OF THE STATE AUDITOR STATE OF MINNESOTA

##### STATEMENT OF POSITION ON CAR ALLOWANCE AND MILEAGE REIMBURSEMENT

Several public entities that we audit have instituted arrangements whereby certain employees receive both a monthly car allowance and mileage reimbursement. Usually the employee receives a monthly allowance ostensibly to cover the use of his or her vehicle within the geographic area of the public entity, i.e. city, county, town, or school district. In addition, the employee receives a per mile reimbursement for travel outside that geographic area.

The question is whether this arrangement is consistent with Minnesota law.

Minnesota Statutes § 471.665 authorizes public entities to compensate or reimburse their employees for the employees' use of their own personal vehicles on official business. It allows governing bodies to set a mileage allowance or to pay a "monthly or periodic allowance."

Specifically, Minn. Stat. § 471.665 subd.3 states:

In lieu of the mileage allowance provided in subdivision 1, the governing body or town board of any city, county, town, or school district may pay any officer or employee thereof as compensation or reimbursement by the officer or employee of a personal automobile in the performance of official duties a monthly or periodic allowance; . . .(emphasis added)

This subdivision clearly states that a monthly or periodic payment can be made "in lieu of" the mileage allowance provided for in subdivision 1. Webster's Third New International Dictionary (G. & C. Merriam Company, 1966), defines "in lieu of" as "in the place of: instead of." The Minnesota Supreme Court has held that:

The phrase "in lieu of" means "in place of" or "instead of" (Century Dictionary; Funk and Wagnall's New Standard Dictionary) . . .State v. Minneapolis & St. L. R. Co. 283 N.W. 244, (at page 245), 209 Minn 250 (1939).

Since one allowance is "in lieu of" the other, public entities can pay either but not both.

The statute does not provide for different types of compensation based on different types of miles driven by the employee. The statute simply provides for one of two methods of compensating an employee for the use of their vehicle in official business.

This is a situation of noncompliance with state law. Until we receive an Attorney General's opinion to the contrary, we should comment on this noncompliance whenever an employer is paying both forms of compensation to an employee for the use of their vehicle.

### 14. Training for Charter and Regular School Districts

The dates listed below are the training opportunities for charter and school district personnel for the 2003-2004 school year from the Financial Management Section. Please contact Ms. Yvonne Wilkes at 651-582-8477 for registration information.

#### UFARS Training-basic and revenue forecasting

Please note that there may be two additional UFARS workshops scheduled for this fall in northern and southern Minnesota. Please periodically check our website for any updates to the schedule.

##### **Charter Schools**

October 14-15, 2003

January 21-22, 2004

April 21-22, 2004

##### **UFARS Training-Year end**

##### **Regular School Districts**

October 14-15, 2003

January 21-22, 2004

April 21-22, 2004

May 11, 2004 (1<sup>st</sup> yr. charters)      Year end at regions  
May 12, 2004 (2<sup>nd</sup> yr + charters)

**Start Up and New Director Training- Charters**

July 25, 2003 was pre-applicant training  
August 4-8, 2003 (FY04 charters) for first year charters with students

October 29, 30 & 31, 2003 (FY 05 charters) Part I-Invitation Only  
January 27-29, 2004 (FY 05 late charter applicants) Part I-Invitation Only  
April 7-9, 2004 (FY05 charters-all) Part II-Invitation Only

**Charter School Board Training**

September 9, 2003 (**CANCELLED**)  
September 25, 2003  
February 18, 2004

**MAFA (Student Activity Accounting)**

October 8, 2003                                      October 22, 2003  
April 13, 2004                                      April 14, 2004

**SOD (Statutory Operating Debt)**

December 4, 2003 (New SOD and Watch List) -Tentative  
December 17, 2003 Charters only-Tentative