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## SCHOOL BUSINESS BULLETIN

Bulletin No. 24

April 2003

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

### General Financial Management Matters

1. **Agency Reorganization** - The Financial Management Section was subject to changes along with almost every other section or division in the agency. Financial Management is still led by section leader-Dick Guevremont. The section is within Program Finance led by division leader-Tom Melcher.

The Financial Management Section has also been streamlined to include only six (6) people. The auditors, Jodi, Dick, Don, Bob and Ron are in a different section. The remaining members and their duties are listed on the revised Financial Management Web site. They are Mike Enman, Debrah Firkus, Dick Guevremont, Ken Moos, Charles Speiker, and Yvonne Wilkes.

2. **UFARS Improvement Projects** – Along with the reorganization of the agency came a rethinking of the UFARS Improvement Project that was initiated 4-5 months ago. This rethinking process will involve many people in the field and be highlighted by the continued theme that...

*UFARS and other systems used for school district accounting and reporting should be updated on a regular basis.*

Continued improvement ensures the partners in education that accurate and comparable data are generated in an efficient and timely manner to support financial accountability. Quality data will also improve decision-making at the state and local levels and public understanding of education finance issues.

At the MASBO Conference on May 1, 2003, Program Finance staff will provide an overview of major information systems used by the Division of Program Finance, including MARSS, UFARS, STAR, and EDRS. The presentation will focus on the purpose and goals of these systems, underlying state and federal requirements for these data, how the data from various systems are integrated, short-term issues and potential solutions that may be feasible within the current fiscal climate, and emerging longer-term issues and potential solutions. MASBO members will meet in small groups facilitated by MASBO board members to brainstorm and discuss short-term and long-term issues and potential solutions related to CFL information systems used for data reporting. Each small group will report back to the larger group and to Program Finance staff on the key points from their discussion.

The MASBO strategy is one of several strategies that will be implemented in the days and months to come as the division and section continue to develop improvement patterns for its users.

- 3. Structural Balance Uploads** - There are a couple improvements needed to the Structural Balance upload process. Until those items are in place, there will be a hold on the uploading of data for public viewing. Districts should continue to fulfill the other part of the statute that requires the submission of a hard copy of data and resolution on each settlement to CFL.

The structural balance electronic reporting system at the Financial Management site has been temporarily shut down for improvements. When the site is reopened for districts to submit settlements, there will be an additional request for information.

District personnel will be asked to identify themselves as in the past. However, the additional question will ask for the current budget year. Since this is an interim strategy, the folder choices will be:

- Settlements prior to April 7, 2003
- Settlements from April 8, 2003 to June 30, 2003.

The system will be shut down again in mid-July for the addition of a folder entitled FY04. When that folder is added, the choices will be expanded accordingly.

When the improvement is made, new instructions will be sent to each district.

- 4. Indirect Cost Rates** - Indirect cost rates will be available by late April. A notification letter is no longer sent to districts. Restricted rates are found by checking the state web site using the following procedure:

- From the main web page
- Click on "Reports"
- Click on "Indirect Costs"
- Click on the appropriate year.

- 5. Student Activity Fund** - The new Manual for Activity Fund Accounting (MAFA) has been in districts in one form or another for almost eight (8) months. It has been periodically revised and those changes have been posted to the Web. The manual itself contained very few changes from past manuals. Most noteworthy of the changes was the clarification between 'cocurricular' and 'extracurricular', where cocurricular activities were those activities that were credit-related as in the case of an evening concert band (cocurricular) counting toward the grade for instructional band (curricular) during the school day. 'Extracurricular' remained unchanged as "not for credit." More Minnesota Statutes, Minnesota Rules, and Attorney General opinions were cited in the new manual.

Training on the manual has been extensive with 10-3.5 hour sessions offered around the state. Those sessions were attended by 278 of 343 districts. There were follow up sessions attended by over 100 districts. There were also presentations to school board members, athletic directors and CPA's.

Several areas of attention were displayed to reporting units during the training programs. Numerous accounting issues were discussed in relation to the Student Activity Fund (SAF). Those issues included contract approval processes, 1099 issues, and management of funds. District personnel

were asked to pay close attention to fund improvements by implementing the following guidelines that will likely be the subject of upcoming audits:

1. Policies are in place to guide management and accounting practices of the SAF.
2. Only extracurricular activity accounts for students are part of the SAF.
3. Only student activity accounts and transactions NOT under board control are in an SAF.
4. Accounts of graduated classes are removed from the SAF.
5. Student accounts without activity for more than a year are removed from the SAF.
6. Convenience accounts and other staff accounts are removed from the SAF.
7. External group accounts, e.g. booster clubs, are removed from the SAF.
8. Individual accounts are not allowed to have a negative yearend balance.
9. Contract transactions are under board control. Transfers or separate checks to the SAF could occur.
10. Internal audits should be on-going. Results of these audits could assist external auditors.

**MAFA** is in Chapter 14 of the **Uniform Financial and Reporting Standards(UFARS)** manual found on the department's web page. Click on the UFARS Manual button at the left of the screen. For assistance or to suggest improvements contact Debrah Firkus at 651/582-8775 or Charles Speiker at 651/582-8737.

6. **UFARS Update for FY03** - Most of the chapters in the UFARS Manual have been updated for FY03. The last update was completed in late February and posted to the web site in March. The chapters that were changed are listed in the index to the manual. The last page of each chapter contains a list of the codes that changed within that chapter since the first publication of the FY03 Manual in August. Print needed changes to update local manuals.

**Source Code 232 - Education Homestead Credit**

This code will remain an active code for FY03 and FY04. There are monies remaining to be paid through the end of FY04 which demands that the code remain active. Continue to use Source code 232 and Source code 234 as tax credit source codes defined on local IDEAS printouts.

**Course Code 640 - Staff Development**

Although written especially to track federal funding to specific Special Education program costs, Course code 640-Staff Development may also be used with other finance codes where staff development costs need to be reported by program. The description will be updated for FY04.

**Finance Code 310 and Reserve Code 408 – Cooperative Programs**

The statutory reference on the balance sheet reserve code 408 is corrected to read: Minn. Stat §123A.27. The corresponding finance dimension code 310 is corrected to allow its continued use and its corresponding reserve code, since the flow of revenues was not discontinued when the statute was amended.

7. **Commodities** - Effective for FY03 there will be only one inventory (single inventory account) in the Food Service Fund representing all food purchased including commodities. The commodities received (Source 474) will be much larger this year because of the deferred revenue from FY02. There will be no offset of deferred revenue for commodities at the end of FY03. The commodity expense (Object 491) will be equal to the revenue received (Source 474).

For FY03 only, districts will need to make a journal entry to reverse the balances of (Deferred Revenue) for commodities and (Commodities Inventory) from FY02. This will be the last year for this entry since there will not be a Deferred Revenue for Commodities in FY03.

Debit 02-XXX-770-701-491-000 (Expenditures)	\$\$\$\$	
Debit 02-230 (Deferred Revenue)	\$\$\$\$	
Credit 02-129 (Commodity Inventory)		\$\$\$\$
Credit 02-XXX-770-701-474-000 (Revenue)	\$\$\$\$	

Districts will receive two reports produced by the Food and Nutrition Services Division of the Department of CFL. They will contain the value of commodities received for the current year. These reports are titled "Food Distribution-Commercial Product Year End Report", which will show the total amount of cash received (Source 473); and "Commodities Received Report for the Auditor", which will show the total amount of commodities received (Source 474).

Districts will make the following entry to record the revenue and expenditures of the commodities received during the year. This entry would be made for all commodities received, including those that were diverted for processing to other products.

**NOTE:** Commodities expenditures (Object 491) must equal the value of Commodities revenue (Source 474).

Debit 02-XXX-770-701-491-000 (Expenditures)	\$\$\$\$	
Credit 02-XXX-770-701-474-000 (Revenue)		\$\$\$\$

The cost of processing the commodities would be coded as follows:

Debit 02-XXX-770-701-490-000 (Purchased Food)	\$\$\$\$	
Credit 02-101-00 (Cash)		\$\$\$\$

Commodity cash rebates will be handled the same as in the past year.

Debit 02-101-00 (Cash)	\$\$\$\$	
Credit 02-XXX-770-701-473-000 (Commodity Cash Rebate)		\$\$\$\$

All commodities and purchased food products will be inventoried as one value and the following entry will be made to record the yearend inventory.

Debit 02-130-00 (Purchased Inventory)	\$\$\$\$	
Credit 02-XXX-770-701-490-000 (Purchased Food)		\$\$\$\$

- 8. First Grade Preparedness** - Districts that receive First Grade Preparedness dollars and do not spend the entire allocation must reserve the unspent dollars for future years. There is no UFARS reserve code for handling this reserve amount, so the district will need to defer the excess revenue to the next year and continue to use it at any approved First Grade Preparedness site within the district.

If a district did not spend the entire amount in FY02, and did not defer the excess revenue, the additional amount will have to be spent from the FY03 unreserved/undesignated fund balance. This amount must be spent in FY03. Any new excess in FY 03 should be deferred to FY04. A reserve code may be established for this purpose in FY04.

- 9. Fiscal Agents** - There has been a great deal of discussion concerning districts that are acting as fiscal agents for other districts or consortiums. A problem surfaced when Governor Pawlenty unallocated Community Service Fund Balance amounts retroactive to FY02. Districts reported that there were fiscal agent dollars in Fund 4 and were subjected to the penalty. The recommendation from the financial management team is that all fiscal agent transactions be handled in the Agency Fund (Fund 9). This would eliminate any misunderstanding of the revenue or expenditures that are in the operating funds of the district.

- 10. ADM's and Early Out for Seniors** - Staff members at CFL have been receiving a large number of calls concerning the possible financial penalty to a district that allows its seniors to complete their classes a day or week before the rest of the students. Therefore, the appropriate Minnesota Statute is cited below as well as an interpretation of the impact and limitations on "early outs" for seniors.

Minnesota Statutes, section 126C.05, subdivision 8 states in part: "Average daily membership equals the sum for all pupils of the number of days of the school year each pupil is enrolled in the district's schools divided by the number of days the schools are in session." The lowest level calendar that is possible for purposes of calculating ADM is a school and grade. Therefore, seniors can have a shorter calendar than younger students and full year seniors will still generate 1.0 ADM.

With one potential exception, there is no financial penalty to a district that would, for example, have a 180-day calendar for all students in grades 9 through 11 and a 175-day calendar for its seniors. That is, seniors could be released a day or week earlier without a financial impact to the district as long as the board previously designated the special number of days for its seniors.

The stipulation on this “early-out” interpretation is that whatever the length of the calendar of the district for particular groups or grades of students, it cannot be fewer than the number of instructional days that was approved by the district for the school year 1996-97. Refer to M.S.120A.41.

The one potential financial exception is when the shortened calendar causes the annual instructional hours to fall below 1,020 (instructional days X length of day in minutes / 60). The full year senior at the high school will still generate 1.0 ADM. However, the ADM for any seniors who were enrolled at an alternative program during the same school year will be reduced by the difference between 1,020 hours and the instructional hours at the high school.

- 11. School Finance Awards – FY03** - The names of the districts that achieved the **School Finance Awards** for FY03 have been determined. Congratulations to board members, administration and staff who made these awards possible.

### Criteria

The criteria for issuing the awards were:

- A. Compliance with state statutes on selected finance issues
- Preliminary UFARS data was received by September 16, 2002.
  - The Revenue and Expenditure Budget form was published by October 1.
  - Final UFARS data was received by the statutory deadline of November 30.
  - A paper copy of the reporting unit audit was received by December 30.
  - School board members were trained in financial matters as per statute.
- B. Demonstration of fiscal health in the local setting
- The district had a positive fund balance in the three major operating funds (1,2,4).
  - The district had a positive reserve in operating capital.
  - The district had policies on positive fund balances and deficit spending.
  - District personnel participated in finance and accounting workshops.

### Characteristics Applied

The awards program began with 499 reporting units. The numbers were reduced by 118 units on the September 15 preliminary deadline (actually September 16 for the FY02 data). There were 116 districts with negative balances and 94 districts that did not meet the November 30 upload deadline. Nineteen districts did not submit an audit by December 30. Districts on the achievement list met each of the statutory deadlines as well as had a satisfactory self-evaluation form submitted by February 28, 2002.

### School Finance Awards-FY03

Special certificates were mailed to the achieving districts in April. They are:

Centennial School District #12	Mankato Area Schools #77
New Ulm Public Schools #88	Farmington Public Schools #192
Edina Public Schools #27	Osseo Area Schools #279
Lake Superior School District #381	Byron School District #531
Underwood Public Schools #550	Menahga Public Schools #821
Eagle Valley Public Schools #2759	

**12. Credit Enhancement Program Update** – The Credit Enhancement Program (CEP) continues to receive attention in the field. The changes in state funding and dropping interest rates may have contributed to the largest activity in the history of the program. The totals for the program activity in the third quarter of FY03 already surpassed FY02 totals as seen in the table below.

#### 3<sup>RD</sup> Quarter FY03 VS FY 02 Comparisons on CEP

	3 <sup>rd</sup> Quarter-FY03	Total FY02
General Obligation		
Number of Issues	24	51
Amount of Issue	309,885,000	839,259,000
General Obligation-Refunding		
Number of Issues 69	37	
Amount of Issue	549,964,900	250,545,000
Aid Anticipation		
Number of Issues	150	124
Amount of Issue	494,489,751	241,637,582
Tax Anticipation		
Number of Issues	6	5
Amount of Issue	46,005,000	71,340,000
Capital Equipment		
Number of Issues	6	3
Amount of Issue	43,609,768	1,667,910
Participation Certificates		
Number of Issues	1	2
Amount of Issue	30,000,000	10,050,000
<b>TOTALS</b>		
Number of Issues	256	222
Amount of Issue	1,473,354,419	1,414,499,492

The total number of issues so far in FY03 is the largest number of issues in an eight (8) year history of tracking. The Aid Anticipation issues are also the largest number of issues in that category as well as the General Obligation Refunding Issues.

**13. Charter School Support** – Since the reorganization of the agency and in particular the Financial Management Section, there have been efforts to continue support to charter schools. Debrah Firkus will attend agency charter school meetings and be a primary contact for questions in general concerning charter schools, lease aid and audits. Ken Moos will assist charter schools in their accounting and UFARS needs. Charles Speiker will assist charter schools in areas of financial management as well as assist the SOD charter schools.

**14. Chapter X Update**

The following changes will be added to Chapter X for FY03. Most of the additional object codes are related to Federal Title Programs.

- Object code 291 added to Finance code 796 and 797
- Object code 391 added to Finance code 411 and 417
- Object code 394 added to Finance code 408 and 409
- Object code 395 added to Finance code 411
- Object code 398 added to Finance code 408, 409 and 411
- Object code 896 added to Finance code 302

Fund 04 is added to Finance code 433. This is for the districts that received revenue for Project Reconnect from a Safe and Drug Free Grant.

**15. Staff Development Expenditures-FY02**

A final report on expenditures and program results on FY02 Staff Development is being drafted for the legislature. A few of the more poignant findings from an analysis of expenditure data are contained in the tables below.

The tables contain summary information of staff development expenditures and balances for 341 regular school districts, two (2) common school districts, 82 charter schools and three (3) intermediate units. The same database is used for **Table 1** and **Table 2**. The data are arranged by Finance/Program Codes in **Table 1** and by Object Codes in **Table 2**. **Table 3** contains summary information on balances that relate to reserved staff development monies. **Table 3** also provides for a comparison of balances from FY01 to FY02.

**Expenditures by Finance and Program Dimension**

The statute on staff development requires specific percentages of allocation of the 2% set aside basic revenue. The table below contains summary information on the amount of money spent by the set-aside categories of site, grant and district. There were other funds available to districts from the general fund. Those expenditures are reported under Program Dimension Code 610 (curriculum) and Program Dimension Code 640 (staff development) with Finance Dimension Code 000.

**Table One: Summary Data of Staff Development Expenditures by Finance Dimension and Program Dimension for FY 02**

<b>Finance/Program Codes</b>	<b>Total Funds Spent</b>	<b>Percent of Total Spent</b>
Finance 306 (50% site)	\$41,976,703	39.46%
Finance 307 (25% grant)	\$11,257,287	10.58%
Finance 308 (25% district)	\$20,222,365	19.01%
Program 610 (curriculum)	\$21,953,698	20.64%
Program 640 (staff development)	\$10,960,548	10.30%
<b>TOTAL</b>	<b>\$106,370,601</b>	<b>100%</b>

Conclusions from **Table 1** include:

1. The largest category of expenditures, almost 40% of reported expenditures, is expended through the 50% site set-aside requirement.
2. Districts spent 32 million dollars outside the parameters of the 2% set aside funds.

## Expenditures by Object Dimension

Reported data by object is summarized by four (4) categories: salaries and benefits, purchased services, materials and equipment, and other.

**Table Two: Summary Data of Staff Development Expenditures by Object Dimension for FY 02**

Object Codes	Total Funds Spent	Percent of Total Spent
100-200 Salaries/benefits	\$81,976,950	77.07%
300 Purchased services	\$17,386,822	16.35%
400-500 Materials/equipment	\$5,696,434	5.36%
600-899 All Other	\$1,310,395	1.23%
<b>TOTAL</b>	<b>\$106,370,601</b>	<b>100%</b>

Conclusions that can be drawn from **Table 2** include:

1. The majority of the expenditures for staff development went to salaries and benefits of employees in the reporting units.
2. There were additional personnel dollars spent through the 300 code-purchased services that included consultant fees.

**Table Three: Summary Data of Staff Development Balances by Balance Sheet Codes for FY 01 and FY 02**

Balance Sheet Name	Balances FY02	Balances FY01
403 Regular-Staff Development	\$13,792,273	\$11,214,392
437 Phase out-Staff Development	\$ 397,595	\$ 1,568,439
438 Phase out-Gifted/Talented	\$ 82,229	\$ 489,052
439 Phase out-Standards	\$1,359,165	\$ 2,832,324
<b>TOTAL</b>	<b>\$15,631,262</b>	<b>\$16,104,207</b>

Conclusions that can be drawn from **Table 3** include:

1. Although the total of all balances was reduced by less than \$1M, the regular staff development reserves were increased by over \$2.5M.
2. The phase out accounts of 437, 438, and 439 were reduced by slightly more than \$3M.

## 16. Waivers on the 2% Set-Aside Requirement

This past year a staff development form was sent to business managers and superintendents in an attempt to provide greater clarity to UFARS data reported in FY03. A staff development form was to be returned to Charles Speiker, if less than the required 2% basic revenue was going to be set aside for staff development.

Districts had the option not to reserve 2% of their basic revenue if one of the following conditions was met:

1. A district may annually waive the requirement to reserve their basic revenue if a majority vote of the licensed teachers in the district and a majority vote of the school board agree to a resolution to waive the requirement. The amount to be waived may be as small or large as the parties agree, up to and including the total amount of the set-aside calculation.
2. A district in statutory operating debt is exempt from reserving basic revenue for staff development. It may still choose to set aside all or part of the 2% calculation through a unilateral vote of the school board.

Sixty-Six (66) districts responded to the request. Of those 66 districts, 22 reported that they were in Statutory Operating Debt and did not need to take a vote. Only 13 districts reported that they agreed to set aside 0% of their basic revenue, while 53 districts reported that they agreed to set aside .5% to 1.53% of the basic revenue.

If each reporting district set aside the total 2%, it would have amounted to \$21,402,985. However, after SOD conditions and votes to reduce the amount were reported, \$7,359,512 remained. This was a reduction of available funds for staff development in reporting units of almost 66% for FY03. It is not known if all districts that voted to reduce funds, reported that information to financial management.

## 17. Prepare for Year-End Activities

It is not too early to begin thinking about year-end activities. For Fiscal Year 2003, the statutory deadlines on reporting and submitting data and audits are:

Initial Upload of UFARS data	no later than	September 15, 2003
Final Upload of UFARS data (audited) and Compliance Table completion	no later than	December 1, 2003
Receipt of paper copy of audit by CFL	no later than	December 31, 2003

You may wish to begin setting up your audit engagements with your auditor and begin final arrangements for completing internal audits. For more questions please call or e-mail Debrah A. Firkus 651/ 582-8775. Ken Moos will be working with you on the actual upload process at 651/582-8370.

- 18. Workshops** – Several workshops are being planned in the areas of budget building, financial management, accounting and coding which will include basic UFARS. The workshops will be conducted this summer and fall for both regular school district personnel and for charter school personnel. As more specific information is available, it will be distributed through superintendent mailings, the financial management web site and appropriate list servs. Registration forms will be posted shortly.

Workshop topics and times (All programs are being held at the Department conference site.)

<b>Student Activity Accounting</b>	April 23&30, 2003 - Full
	October 8, 2003
	October 22, 2003
	April 13, 2004
	April 14, 2004

## Year-end Reporting

1<sup>st</sup> year charter schools (by invitation only) May 27  
Charter schools with more than one year experience May 28

**Financial Management, Accounting and Coding (basic UFARS included)**

Charters new with children in FY04 (invitation only) July 9-11

Regular K-12 school districts July 7&8

Regular K-12 school districts October 13&14

Regular K-12 school districts January 28&29, 2004

Regular K-12 school districts April 21&22, 2004

A special awareness program in financial management, accounting, and coding will be conducted for Charter schools which will have children for the first time in FY05. It is scheduled for October 9, 2003