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SCHOOL BUSINESS BULLETIN

Bulletin No. 17

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

General Financial Management Matters

1. Welcome Back, Ken Moos and Goodbye, Chuck Kinn!!

Ken Moos is now back on the Financial Management Team! We're happy he decided to return to state service with his valuable expertise and knowledge in school business finance.

Chuck Kinn will be leaving state service on January 16 for a well deserved retirement. We wish him well in his leisurely pursuits and also polishing up his golf game.

2. GASB Statement 34 - Fixed Assets Alert - Last summer the Accounting Guidelines Committee established a subcommittee to review the requirements of GASB 34 and to address implementation issues common to Minnesota school districts. One of its goals was to communicate implementation suggestions and ideas to school districts. To date the committee met three times and discussed several implementation issues.

The committee recommends that all school districts use the *GASB Statement No. 34, Implementation Recommendations for School Districts* that is published by the Association of School Business Officials for the implementation of GASB statement No. 34. This guide can be purchased from ASBO International, 11401 North Shore Dr., Reston, VA 20190-4200, (703) 478-0405. The cost is \$25/\$35 for member/non-member.

An additional resource is the *Guide to Implementation of GASB Statement 34 on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The document can be obtained through GASB by writing Governmental Accounting Standards Board, 401 Merritt 7, P.O.Box 5116, Norwalk, CT. 06856-5116 or calling 1-800-748-0659 and asking for Product code number GQA34.

Other suggestions that concern fixed asset records from the committee include:

1. School districts should follow the guidance in the *ASBO Implementation Guide* for establishing capitalization thresholds and depreciation lives. The Department of Children Families and Learning will be changing the UFARS manual to be consistent with this guide.
2. Before hiring an appraisal company, a district should meet with its auditor(s) to discuss plans for identifying capital assets, establishing thresholds, calculating depreciation lives

and other assumptions that need to be clarified. The district will also need to identify which program/functions will be used in the financial statements so assets can be sorted accordingly.

3. Districts should also meet with their software vendors prior to having an appraisal. The following items should be discussed:

- How are fixed asset records going to be maintained in the future?
- Will the vendor have a fixed asset module?
- Will the module calculate depreciation?
- Will the appraisal company be able to download its data to the vendors system?

The committee also developed a partial list of appraisal companies that districts could consider. If districts have names of other appraisal companies that should be placed on the list, they should send them to Debrah Firkus, Department of Children, Families, and Learning. The list of companies is contained below.

APPRAISAL COMPANIES¹

Name	Address	City, State, Zip	Telephone
Advanced Bar Code Solutions	7308 Aspen Lane Suite 111	Brooklyn Park, MN 55428	(763) 424-4992
American Appraisal Associates	411 East Wisconsin Avenue Suite 1900	Milwaukee, WI 53201	1-800-228-4888
Industrial Appraisal Company Bob Wentzel	250 Prairie Center Dr. Suite 325	Eden Prairie, MN 55344	(952) 942-6734
RCI Technologies, Inc.	10826 Gulfdale	SanAntonio, TX 78216	(210) 366-4127
Valuation Advisory Group, Inc.	445 Pharr Road NE	Atlanta, GA 30305	(404) 841-0992
VRM, Inc. Mark T. Small	2817 Anthony Lane S.	Mpls., MN 55418	(612) 788-2335

¹ This is a partial list. The committee is not endorsing these companies.

3. ALERT on Credit Enhancement Program - District superintendents, business managers and financial advisors need to be aware of maturity date conditions for aid anticipation and tax anticipation certificates. Applications that do not contain a maturity date or do not contain an appropriate maturity date are being returned without approval to financial advisors for improvement. Statute 126C.54 from the Minnesota Statutes 2000 (Office of the Revisor) is reprinted below.

126C.54 Repayment; maturity date of certificates; interest.

The proceeds of the current tax levies and future state aid receipts or other school funds which may become available must be applied to the extent necessary to repay such certificates and the full faith and credit of the district shall be pledged to payment of the certificates. Certificates issued in anticipation of receipt of aids shall mature not later than the anticipated date of receipt of the aids as estimated by the commissioner, but in no event later than three months after the close of the school year in which issued. (Underline added for emphasis)

Certificates issued in anticipation of receipt of taxes shall mature not later than the anticipated date of receipt in full of the taxes, but in no event later than three months after the close of the calendar year in which issued. (Underline added for emphasis)

The certificates must be sold at not less than par. The certificates must bear interest after maturity until paid at the rate they bore before maturity and any interest accruing before or after maturity must be paid from any available school funds.

4. Statutory Operating Debt - Minnesota Statute 123B.83 states that school districts must limit their expenditures such that they do not accumulate excess operating debt. Specifically, it provides that school districts must not spend in excess of an amount that the year end net unappropriated operating fund balance exceeds 2 1/2 percent of their operating expenditures for that school year. Net unappropriated operating fund balance (NUOFB) is defined by Minnesota Statute 126C.01, Subd.11. This language is appropriate to districts in SOD at the end of FY 2000.

If you district achieved this status, you should have been notified by the Department of that condition. Resources are available to assist you in building the required special operating plan that must be submitted prior to January 31, 2001. If you have questions or are in need of assistance, please call Dr. Charles A. Speiker at 651/582-8737. If you are part of a charter school and are in statutory operating debt, please call Ms. Nancy A. Schultz at 651/582-8712.

5. Student Activity Accounting Manual - There is a group of people working to improve the Student Activity Accounting Manual that was implemented in 1987. Several attempts at revision have been undertaken over the past few years. The revision group is identifying issues and problems associated with these accounts. If you have suggestions for improvement, please call Dr. Charles Speiker at 651/582-8737.

UFARS Manual Update

1. Child Nutrition Commodity Program Coding – 474 Commodity Distribution Program (Fund 02)

Enter as revenue the value of USDA donated commodities established by the latest version of the "Standardized Commodity Costs" provided by Food and Nutrition Services of the Minnesota Department of CFL. Use with Finance Dimension Codes 701-709 and the appropriate balance sheet dimension code.

Each year districts have the option to receive regular USDA commodities or divert USDA commodities to a manufacturer for further processing into a more usable form, such as diverting ground beef for processing into precooked beef patties. The manufacturers may choose to provide the further processed commodities for a fee for service, discounted sale price or a cash rebate. For manufacturers who use cash rebates, districts must submit a rebate form to the manufacturer after purchasing the commercial product(s) from their commercial food service distributor. The manufacturer passes the value of the commodities used to produce the commercial food product back to the districts as a rebate check. The rebate check should be recorded to the Commodity Source Dimension Code 474.

This accounting process for the revenue will allow for the total value of all commodities received by the district to be reflected in one source code. The detail for the code at year's end will show both (a) the revenue received from manufacturers in the form of rebate checks and (b) the value of commodities received directly by the district. This does not change the definition of Source Dimension Code 474. It expands the channels by which a district can receive the value of the commodities.

The Food and Nutrition Service will continue to provide a report after the end of the fiscal year detailing the value of all commodities allocated during the year.

Special Education

1. Special Education Funding and Web Link - The Division of Special Education Funding and Data unit would like to make sure that the users of the School Business Bulletin have special education information available to them on both the Financial Management site and the Special education site.

Look for the two sites, Financial Management and Special Education Funding, to be linked in the near future so that users can go between the sites with relative ease.

2. Special Education Budget Manual - Ms. Cecelia Dodge, Supervisor, Division of Special Education, announced the completion of "Funding Special Education, A Handbook for Administrators" The Department is able to provide one copy of the manual to each district free of charge. Manuals are also being mailed to Directors of Special Education and Charter School Administrators. Please see that personnel most directly involved in day to day special education budget activities, namely business managers and special education secretaries, get these first copies right away.

Additional copies can be purchased for approximately \$13.50 through the Metro ECSU in the following ways:

Phone: 612/706-0801 ext. 110

Fax: 612/706-0811 - Attention: DSE Publications,

This manual replaces the old special education budget manual. The old manual has a lavender cover and is dated July 1991. In anticipation of a continued state of change in the field of special education, this manual is being produced on three-hole punch paper. Occasional revisions and updates to this manual will be sent to districts. Placement of this manual in a three-ring binder will allow districts to stay current. Additionally, a tab has been added at the back of the manual, creating a place to keep important memos from the Department regarding special education funding and data.

Questions about this manual can be directed to:

Mona Regan 651/582-8638

Nevin Nolder 651/582-8622

George Holt 651/582-8889

Mike Matlock 651/582-8379

Note: Business managers should ask his or her Superintendent for the copy of this manual after winter break.

Program Finance

1. Integration Revenue - Statute changes during the 2000 session regarding Integration Revenue have caused a change in MARSS reporting requirements for EOY FY01. Specifically, districts will need to report ECONOMIC INDICATOR on the EOY, as well as the fall, FY01 files for students who are eligible to generate Integration Revenue. Refer below.

Integration Revenue is intended "to increase learning opportunities and reduce the learning gap between learners living in high concentrations of poverty and their peers." (M.S. 124D.86, Subdivision 1) It is generated by eligible districts using data reported via MARSS. Each district that accesses the funding must also have a Desegregation Plan on file in the Office of Equity at the Department. The funding formulas and student eligibility are specified in statute (M.S. 124D.86). Further details can be found in Minnesota Rules Parts 3535.010 through 3535.0180.

Revenue Sources

Integration Revenue has three parts:

1. **Cities of 1st Class Revenue (M.S. 124D.86, subd. 3 (1), (2) and (3)):**

Minneapolis, St. Paul and Duluth are eligible for this funding. All three districts are required to have a Desegregation Plan in accordance with the Desegregation Rule. Revenue is 78% aid and 22% levy. Statute specifies the amount that is generated per adjusted weighted average daily membership (WADM). Students do not need to meet any eligibility requirements to generate the funding.

Minneapolis \$536
St. Paul \$446
Duluth \$207

2. **Aid/Levy: \$93 (M.S. 124D.86, subd. 3 (4)):**

To qualify for this funding, each district is required to have a Desegregation plan in accordance with the Desegregation Rule.

- Inter-district plans are required of districts that are contiguous to an isolated district; the plans were due at CFL by January 2001. An isolated district is one in which the percent of protected students is at least 20 percentage points higher than at least one contiguous district. Protected students are those who identify as African/Black Americans, Asian/Pacific Americans, Chicano/Latino Americans, American Indians/Alaskan Natives, or multiracial students having origins in more than one of these categories plus Caucasian. These percentages are calculated using the October 1 enrollment data supplied via the Fall MARSS data. Isolated districts are:

Minneapolis	St. Paul
Brooklyn Center	Worthington
Mountain Lake	Madelia
Butterfield	Lynd

- Intra-district plans are required of districts with one or more isolated schools; the plans were due at CFL by late August 2000 to qualify for the levy. An isolated school is one in which the percent of protected students is 20 percentage points or more above the district average. Again, these percentages are calculated using the October 1 enrollment data supplied via the Fall MARSS data.
- This revenue is 78% aid and 22% levy. The revenue is based on the approved budget with a maximum revenue of \$93 per adjusted WADM. Students do not have to meet any eligibility criteria to generate this funding.
- The initial levy was made in the fall of 1999 for taxes payable in 2000; it was adjusted this fall for taxes payable in 2001.
- New districts with approved plans for FY 2001 will levy fall 2000 and recognize the levy as revenue in FY 2001.

3. **Alternative Attendance Adjustments (M.S. 124D.86, subd. 6):**

This funding is based on the student's residency and free/reduced price meal eligibility. To be eligible students must be:

- Residents of Minneapolis, St. Paul or Duluth.
- They must have transferred under an eligible program to a district other than Minneapolis, St. Paul or Duluth that has a plan. Eligible programs are any one of five attendance options programs, including open enrollment, parent-initiated agreements between boards, and continued enrollment of juniors and seniors, specifically MARSS STATE AID CATEGORIES 01, 04, 11, 12 and 13 plus nonresidents enrolled in an Area Learning Center (ALC). However, students enrolled via graduation incentives in other than an ALC are ineligible.
- For FY 01 funding, student eligibility changes from students of color to students eligible for free or reduced price meals. Students who were eligible in FY 2000 are "grandfathered" as long as they remain residents of Minneapolis, St. Paul or Duluth and remain enrolled in the same district. (This change in eligibility will cause a MARSS reporting procedure change. Students' ECONOMIC INDICATOR will have to be reported on the year-end files as well as the fall files. Refer below.)

UFARS Coding

On UFARS, record Integration Revenue under Finance Code 315.

MARSS Reporting

Because of the statute modification to the Integration Revenue formula during the 2000 session, an additional piece of data needs to be collected for students to generate funding. The formula now requires Average Daily Membership (ADM) for students who are eligible for the free or reduced price meal program. As you know, ADM is a formula that requires year-end membership data; therefore, districts that want to access the Alternative Attendance Adjustments funding described above will need to report free and reduced price meal eligibility (MARSS Economic Indicator) on the year-end MARSS files. This formula change is effective with the FY01 data. It is to a district's financial benefit to report these data.

At least 39 districts are currently eligible for Integration Revenue; 31 of them have supplied the necessary paperwork and are planning to levy next year. In addition, any other district that receives eligible enrollment options students from Minneapolis, St. Paul and/or Duluth could also generate this revenue. Two things need to occur: 1) the district needs to develop a budget that specifies how the Integration Revenue will be spent; and, 2) the students' ECONOMIC INDICATOR must be reported on the EOY FY 01 MARSS files.

Software vendors were notified of this change in a mailing in September. At least two considerations must be met:

1. Integrated systems must take care that when students "fall off eligibility" during the year that they are still reported as eligible on the MARSS year-end files. Food Service offices need more precise dates as to when a student is or is not eligible. This is also an issue on the Fall MARSS files; however, for Fall reporting purposes the student's parent/guardian must sign and submit an eligible Application for Education Benefits by January 15.
2. The software needs to assure that Economic Indicator data are included in the year-end extract so that updates that districts make during the school year are included in the year-end MARSS file. The file format itself does not change.

This MARSS reporting change will not impact all districts during FY01. However, other federal programs are in need of year-end counts of students eligible for the free or reduced price meal program so that by FY02 this change will probably be considered statewide. Watch for more information in future bulletins.

All of the following criteria for *year-end* reporting must be met:

1. If the student was eligible for free or reduced price meal data at all during the year while enrolled in this district, the student can be reported with an Economic Indicator of 1, 2, 4 or 5. For purposes of Integration Revenue there is no financial distinction between free and reduced price as there is for Compensatory Revenue.
2. The student need not be eligible on the last day of the school year, or on the last day of enrollment, to be reported as eligible for free or reduced price on the year-end MARSS files.
3. For MARSS edit purposes, students with multiple enrollment records can have the same, or different, Economic Indicators within a district. However, it would be to the district's benefit for the software, on the year-end reporting, to assign the student as free to all enrollment records if the student was eligible for free at all during the year while enrolled in the district. For purposes of Integration Revenue, a student could be reported as (a) free with meal access in one school and (b) free with no access in another school, as long as both records were reported as eligible for free in the same district.

4. The district must have either a signed Application for Education Benefits or Direct Certification for each student reported as eligible for free or reduced price. (This is no different than the Fall reporting policy.) For purposes of meal eligibility, Compensatory and Integration Revenue, these applications expire September 30 each school year and must be re-solicited from parents/guardians annually, except for students on the current year's Direct Certification list. Direct Certification lists are updated annually by CFL and provided to Food Service Directors in August for the upcoming school year.
5. For year-end reporting and auditing, the student can be retroactively reported as free or reduced price eligible during the same year during which the application applies and while enrolled in the same district. However, students who were eligible in September, based on the *prior* year's application (which expired September 30), are *ineligible* to report as free or reduced price during the current year unless a new, eligible Application for Education Benefits has been submitted or the student is on the Direct Certification list.

Contacts:

Marilynn Loehr for MARSS reporting questions (651) 582-8592

Sharon Peck for Integration Revenue and student count questions (651) 582-8811

Barbara Zohn for questions on Desegregation Plans and eligible districts (651) 582-8695