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SCHOOL BUSINESS BULLETIN

Bulletin No. 3

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

It has been suggested that all the topics discussed in these bulletins be labeled so they can be easily referenced. Beginning with this bulletin, each topic will be identified. For example, SBB#3(A1) would identify the topic "Minimum Wage Increases" under the General Financial Management Matters Section of this School Business Bulletin.

General Financial Management Matters

1. **Minimum Wage Increases** - Both state law (M.S.177.24) and federal law (1997 Small Business Job Protection Act), now require that the minimum wage be \$5.15 per hour. This was effective September 1, 1997. Be aware that you are allowed to use a "youth opportunity wage" of \$4.25/hour for workers under age 20 during the first 90 days of employment.
2. **Fiscal Year 1997 Financial Reporting Update** - According to M.S. 121.908, Subd. 3, all school districts must have their audited UFARS data and a copy of their financial audit report submitted to the MN Dept. of Children, Families & Learning by December 31, 1997. If the UFARS data tape or diskette does not pass the edit checks at the Department, an error report will be sent to the Regional Management Information Center or directly to the district. According to a letter from Deputy Commissioner John Hustad dated November 3rd, any necessary corrections must be made and submitted to the Department no later than January 23, 1998. The corrected data will be used by the Department staff for many state and federal programs, levies, and financial condition analysis. Programs include Titles I, II and VI, Secondary Vocation Education, School to Work Disabled Programs, Assurance of Mastery, etc. Any FY 1997 UFARS data corrections submitted after January 23, 1998 for state and federal programs which use UFARS data as part of the calculation for final payment must go through our appeals process, which was set up effective for FY 1994 and thereafter.

Note: As of October 15th, there are many reporting units that have not submitted their unaudited UFARS data which was due August 15th.

3. **Employee Benefits and Reemployment Insurance Levy** - Beginning with FY 1997, it is required that all costs associated with employee benefits be allocated to the program which generates the benefit. The Financial Management Team prepared a Guideline for allocating these costs [see attachment SBB#3(A3)]. Please note it is recommended that the allocation of Object Code 280 (Reemployment Compensation Insurance) expenses use the chargeback Object Code 295 within Program Code 930, Employee Benefits. This implies that it is permissible to reclassify portions of the

Reemployment Insurance Levy to the Food Service Fund (02) and the Community Service Fund (04) to cover actual costs.

Also, note that beginning with the payable 1999 levy, the calculation for the amount of reemployment insurance levy will use the estimated current year expenses (1998-99) less the current Reserved for Reemployment Fund Balance (6/30/98 Balance Sheet Account 410). The payable 1999 levy will be 100% recognized in FY 1999.

4. **Expenditure Accounting for Area Learning Centers (ALCs)** – A number of people have posed the following question: “How can I account for special education costs or other costs which relate to unique finance dimension codes for ALCs?” ALCs should be using Organization Dimension Code 610 (or Specific Budgeted Learning Site Number) and Finance Dimension Code 303 on only the expenses related to the 90% General Education Revenue generated by the students in the program. Other ALC expenses using other resources are additional to those coded to Finance Code 303 and therefore should be coded to the ALC using Organization Code 610 (or Specific Budgeted Learning Site Number) and the following finance codes depending upon the resources used:

- (1) Special Education – Use Program Code 400s and Finance Code 740.
- (2) Secondary Vocational – Use Program Code 300s and Finance Code 830.
- (3) Operating Capital – Use Finance Code 302.
- (4) Compensatory – Use Finance Code 317.

5. **Uses of Compensatory Education Revenues** - The purpose of this item is to clarify both the uses of Compensatory Education Revenue under M.S. 124A.28, Subd.1 and the related accounting for Compensatory Education expenses. Within the General Fund, the district must account for these expenses by site to match where the revenue is being allocated. For Fiscal Year 1998, UFARS reporting to the state allows either the old organization dimension codes (100, 200, 300, 610) or the new Budgeted Learning Sites (MARSS number) codes. Besides the Organization Dimension, the Finance Dimension Code 317, Compensatory Education, must be used for all expenditures related to the Compensatory Education revenue.

One area requiring clarification is the accounting for certain compensatory education expenditures such as special education expenses which have separate funding and therefore a UFARS finance dimension code (Finance Code 740). A district may use only unfunded portions of categorical program expenditures for compensatory education and only if it is for students needing compensatory education and satisfies one or more of the twelve uses prescribed in statute (M.S. 124A.28, Subd. 1 as amended in 1997.) Examples of programs that may qualify are Operating Capital, Special Education, Limited English Proficiency, and Assurance of Mastery. The following example illustrates the accounting entries necessary to reclassify \$15,000 of unfunded special education expenses that the district wishes to classify as a compensatory education cost.

		<u>DR</u>	<u>CR</u>
Original entry:	01-100-420-740-555-000	\$30,000	
Reclassify entries:	01-100-420-000-555-000		\$15,000
	01-100-420-317-555-000	\$15,000	

In order to calculate the amount of special education expenses that are unfunded, the following calculation is recommended:

General Fund Special Education Program Costs -

- Less:
- (1) Federally Funded Expenditures (Finance Dimension Codes 400-599).
 - (2) Special Education Revenue (State Aid and Levy including Excess Cost Revenue).
 - (3) Portion of General Education Revenue which is generated by Special Education students. Use 5.7% X Total General Education Revenue as defined under the Excess Cost Calculation (Refer to line 15 on the Special Education Excess Cost Aid Entitlement Report).
 - (4) Special Education Tuition Revenue.

This recommended approach uses the component in the Special Education Excess Cost Revenue formula which assumes that 5.7% of General Education Revenue can be attributed to special education expenses. Districts may alternatively use a documented cost approach to measure the level of unfunded special education operating expenditures.

The above accounting example raises another issue which is the use of Compensatory Revenue for operating capital expenses. One use of Compensatory Revenue is "instructional materials and technology appropriate for meeting the individual needs of these learners." This implies that Object Dimension Code 555, Technology Equipment, may be used for compensatory education if used exclusively for "... pupils whose progress toward meeting state or local content or performance standards is below the level that is appropriate for learners of their age." It is the position of the Department that any related facility costs such as site or grounds acquisition or building acquisition or construction (Object Codes 510 and 520) are not eligible expenses for Compensatory Education Revenue.

School Funding

1. **Future School Funding Formulas** – There have been some inquiries to the Department concerning the status of the current funding formulas for the next biennium. The fact is that the repealer provision which passed during the 1992 legislative session (1992 laws, Chapter 499, Article 7, Section 31) eliminating most, if not all, state funding formulas effective 6/30/99 has not been repealed as of this date. You will have to decide if this is good news or bad news! Also, the general design of replacement revenues in the "Minnesota Education Finance Act of 1992" (M.S. 124A.697) has not been repealed.
2. **New Lease Levy Limits** – Beginning with the payable 1998 levies, there is a limit on the amount of levy authority the Department will approve for renting or leasing buildings or land for instructional purposes. The limit is \$100 times the district's resident weighted average daily membership (WADM); it appears all districts that applied for permission to levy under this provision were under the limit. See M.S. 124.91, Subdivision 1 as amended in 1997 (Omnibus Bill, First Special Session Chpt. 4, Article 4, Sec. 19) for more details about this levy.

School Facilities

1. **Portable buildings** – Some people at the recent MN Association of School Maintenance Supervisors (MASMS) convention expressed interest in a recent school district's troubles with leased relocatables (portables). A call to a source at State Building Codes revealed the following (paraphrased):

"What first drew Building Code's attention to the issue was incorrect labeling of the units shipped to the school district. The relocatables were installed under a different set of rules than apply to schools. Schools are regulated by state building codes. The leasing company hired a certified mobile home installer to do the installation, so they were installed as mobile homes, not school buildings.

Four problem areas were identified:

- (1) Foundations were not constructed correctly, leading to potential for excessive lateral movement.
- (2) Connectivity between units located together was not done according to manufacturer's specifications. Also, several manufacturers were involved, complicating the issue.
- (3) Improper fastening of roofing trusses.
- (4) Inferior building materials – e.g., some sheet rock was clearly marked as "dunnage – not for sale."

The source said that some other relocatables (in other locations, districts) may not be perfect, but that these were "pretty gross." A check with the manufacturer showed not many others were sold to districts within recent years. The financing company has reacted mpositively. It has taken the issue very seriously, sending out two vice presidents to deal with the situation on-site and has gone directly to other districts to evaluate their situations.

It is believed that the Building Codes Division will monitor installation/renovation of relocatables as a matter of course and does not plan to launch a major investigation of the issue statewide. However, if you have concerns that your installations are not what they ought to be, contact your local building code official for an opinion.

2. **Lead in Water** – During the October 31 - November 1, 1993 period, a local TV channel televised lead in water sampling results in the 50-100 parts per billion range from water taps of several metro area elementary schools. As you may recall, the guidance manual developed in 1994 called for water testing every three to five years (non-mandatory, but according to the district's adopted plan). We are entering the "ought to test" period, and are hearing that some local stations may be planning to quietly reenter elementary buildings to determine how much "at risk" kids are to lead exposure.
3. **Roof Water Leakage** – As most persons in Minnesota know by now, Crooked Lake Elementary in Anoka-Hennepin school district was closed by special board action over the weekend effective October 13, 1997 for several months due to roof water leakage causing mold buildup in the area between the roof and drop ceiling. Pictures depict widespread growth in about one-third of the rooms.

The president of the environmental consulting firm Bruce Bomier of IEA made a special effort to point out that the situation leading to this mold growth is virtually unique and that mold growth of this type and volume is very rare.

According to Phil Allmon from the Department, future decisions by other districts regarding their indoor air quality management and remediation plans should not be based on this isolated incident any more than a prudent financial planner would base future earnings growth on lottery proceeds. If someone approaches a district quoting the incident as a reason for a remediation plan, they are suggesting that you manage by remote chance rather than by probability.

UFARS MANUAL UPDATE

1. **Secondary Vocational Education** – The language change from "Secondary Vocational" to "School-to-work" only applies to the school-to-work disabled categorical (Finance Dimension Code 835). It does not apply to the Secondary Vocational Program in general.
2. **FY 1998 Manual** – The UFARS Manual has been revised and the FY 1998 edition is being printed and will be distributed sometime in November. It will also be available on the Internet (FY 1997 and FY 1998 editions). A new feature of this edition is the inclusion of the approved changes for 1998-99. This should help districts when planning next year's budget.

Also, it includes a comprehensive listing of all anticipated payments to districts (local, state and federal) along with their accounting treatment, statutory reference, and the contact person in the Department.

General Information

Deadlines/Important Dates

- | | |
|-------------------------|--|
| November 4, 1997 | - Election Day – No School Sponsored Activities 6-8 p.m. |
| November 11, 1997 | - Last Day to Canvass elections. |
| November 11-24, 1997 | - County Auditor prepares and County Treasurer delivers a parcel specific notice of proposed property taxes. |
| Nov. 24 – Dec. 18, 1997 | - Advertise Truth-in-Taxation Hearing in official newspaper at least two days but not more than six days before hearing. |
| Nov. 29 – Dec. 20, 1997 | - Truth-in-Taxation Hearing(s). |

Program Dimension Code 930 – Employee Benefits

Allocation of Program Costs

According to the UFARS manual, at year-end all costs associated with benefits, Re-employment Insurance, and Workers Compensation are to be allocated to the program which generated the benefit. State reporting requirements to the U.S. Department of Education also require that employee benefits in the Operating Funds be allocated to specific programs which receive the benefit. Because of the above, the description for Program Code 930 was changed to “Employee Benefits (clearing account only).” The Internal Service Fund (20) does not need to have Program Code 930 be zero due to the nature of the fund.

If indirectly allocating employer costs for employee benefits (Object Codes 210-250, 299,305) that have been charged to Program Dimension Code 930, districts may allocate employer costs to the following general areas, using chargeback codes 295.

- Program Code: 030 General Administration – Instructional (000 Series)
- 105 District Support Services (100 Series)
 - 201 Kindergarten Instructional Services
 - 203 Elementary Instructional Services
 - 211 Secondary Instructional Services
 - 399 Secondary Vocational Instructional Services
 - 420 Special Education Instructional Services
 - 505 (Fund 04) – Community Service Program (General)(500 Services Except for ECFE)
 - 580 (Fund 04) – Early Childhood and Family Education
 - 605 Instructional Support Services (600 Series)
 - 760 Pupil Transportation Services
 - 770 (Fund 02) – Food Service Program
 - 790 Other Pupil Support Services (700 Series except for pupil transportation and food service)
 - 810 Operations and Maintenance of Facilities Services (800 Series)

For allocating employee costs for Object Codes 190, 191, 270, 280 and post-employment insurance benefits, the following six program codes should be used: 105 – District Administration; 202 – Employee Benefits to Instructional Personnel; 505 – Community Services Program; 760 – Pupil Transportation; 770 – Food Service Program; 810 – Operations and Maintenance. It is recommended that Program Code 930 not be used, but rather budgeted and accounted for directly to the above programs (105, 202, 505, 760, 770, 810).

According to the Permitted Code Combinations Chapter in the UFARS manual there are eleven object codes allowed within Program 930 – Employee Benefits (clearing account only). The following table details the recommended procedure for complying with UFARS:

PROGRAM 930 – EMPLOYEE BENEFITS

OBJECT DIMENSION CODES	DESCRIPTION	DIRECT	CHARGEBACK
190	Sabbatical Leave Pay	Code to programs 105, 202, 505, 760, 770, or 810 as costs are incurred.	Determine percentage of these expenditures for program category 105, 202, 505, 760, 770, or 810 and chargeback using Object Code 295.
191	Severance Pay		
210	FICA/Medicare	Using payroll system, allocate these costs associated with each employee to the same programs as the salaries.	Determine percentage of salary for these expenses for each employee bargaining group and charge back, using Object Code 295.
214	PERA		
218	TRA		
220	Employee Insurance	Using payroll system, allocate these costs associated with each employee who receives the benefit to the same programs as the salaries.	Determine dollar amount of benefit for each employee by the benefit bargaining unit and chargeback using Object Code 295.
250	Tax Sheltered Annuities/MN Deferred Compensation Plan	Using payroll system, allocate these costs associated with each employee which receives the benefit to the same program as the regular salary.	Same as Object Code 220 above.
270	Workers Compensation	Identify employees receiving benefit during each billing period and proportionately allocate costs to the same programs as the regular salary.	Determine percentage of salary cost for each worker's compensation category using Program Categories 105, 200, or 810 and proportionately chargeback using Object Code 295.
280	Reemployment Compensation Insurance Note: Dedicated levy revenues should be allocated to Funds 02 and 04 to cover the costs.	Identify employees receiving benefit during each billing period and proportionately allocate costs to the same programs as the regular salary.	Determine program area (105, 200 or 810) for person receiving benefit and proportionately charge back using Object Code 295.
299		See recommended method.	See recommended method.
305	Consulting Fees/Fees for Service	See recommended method.	See recommended method.