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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

Where did the summer go? Hopefully, your district had a successful closing of the 1996-97 fiscal year and 1997-98 school opening. These Bulletins will be on the Internet in the future. Simply access the Department's Homepage (children.state.mn.us) and follow the menu.

General Financial Management Matters

1996-97 Financial Reporting - According to M.S. 121.908, Subdivisions 2 and 3, each district (including governmental units formed by joint powers agreements entered into by districts) shall submit to the Department by August 15 of each year unaudited UFARS data for the preceding year. By December 31, the district shall provide to the Department and the State Auditor an audited financial statement prepared in a prescribed form. This deadline also relates to all audit corrections to the unaudited data previously submitted electronically.

As of September 2, the Department has received 210 unaudited financial reports from Regional Management Information Centers or directly from districts. While the Department has not analyzed any of the data, early submission of data from a district may detect any non-compliance issues in a timely manner. See Turnaround Report Article in this Bulletin.

Single Audit Distribution List - All entities required to have a single audit must submit **one** copy of their June 30, 1997 audit to each of the following:

- Office of the State Auditor
525 Park Street - Suite 400
St. Paul, MN 55103
- Minnesota Department of Children, Families & Learning
554 Capitol Square Building
550 Cedar St.
St. Paul, MN 55101-2273
(Contact Person: Debrah Firkus at (612) 296-8640)
- National Clearinghouse for Single Audit
Bureau of Census
1201 East 10th Street
Jeffersonville, IN 47132

ETS Study Supports Value of Smaller Classes and Central-Office Spending - Harold Wenglinsky recently completed a study on school spending for the Educational Testing Service (ETS) - "When Money Matters." Besides his conclusion that smaller classes are an indicator for higher achievement, Mr. Wenglinsky said the amount of central-office spending was also associated with higher student achievement. His report is subtitled "How Educational Expenditures Improve Student Performance and How They Don't." For more information:

"When Money Matters" (Available for \$9.50)
Educational Testing Services Policy Information Center
Mail Stop 04-R
Rosedale Road, Princeton, N.J. 08541-0001
(609) 734-5694

Net Unappropriated Operating Fund Balance - Several districts have contacted the Department questioning the calculation used in determining both the largest deficit fund balance allowed and highest fund balance allowed without penalties. First of all, there is no longer a penalty for high fund balance. That language in law was deleted in 1997 (see Section 63 of Article 1 of the Omnibus Bill repealing M.S. 124A.26) which implies there is no longer a General Education Revenue reduction for a large operating fund balance. A district's deficit (negative) fund balance, however, is addressed in M.S. 121.914 - Statutory Operating Debt. It states that:

"If the amount of operating debt is more than 2½ percent of the most recent fiscal year's expenditure amount for the funds considered under Subdivision 1, the net negative undesignated fund balance shall be defined as "Statutory Operating Debt" for the purposes of this section and Sections 121.917 and 124.914, Subdivision 1."

According to M.S. 121.917, any district shall limit its expenditures so that its unappropriated operating fund balance shall not constitute Statutory Operating Debt. During the 1996 legislative session, the definition of Unappropriated Operating Fund Balance was specifically defined and did differ from earlier interpretations. The definition is in M.S. 124A.02, Subd. 25 and states that "Net Unappropriated Operating Fund Balance" means the sum of the fund balances in the General, Food Service, and Community Service funds minus the balances reserved for Statutory Operating Debt reduction (UFARS Balance Sheet Account No. 414 and 415), Bus Purchase (412), Severance Pay (411), Taconite (426), Reemployment Insurance (410), Maintenance Levy Reduction (416), Operating Capital (424), Disabled Access (427), Health and Safety (406), and Encumbrances (419), computed as of June 30 each year.

School Funding

Site-Based Technology Transformation Grants - Check the Department's Homepage to apply for Site-Based Technology Transformation (SBTT) Grants. Applications must be received by 4:00 p.m. on October 31, 1997. Eleven million dollars of grants will be awarded this year. This is a matching program. See Bulletin No. 1 under the "UFARS Manual Update" section for accounting information for this grant.

Alternative Attendance Adjustments - Please be aware that each year a district's General Education Revenue is adjusted for the net gain (loss) of students under the alternative attendance programs. For estimates, the Department uses the actual net gain (loss) of the most recent year for which we have actual data. If the net gain (loss) is material, districts are reminded that the adjustment should be reflected in the Operating Capital Revenue and therefore the Reserve for Operating Capital Fund Balance. The Operating Capital Revenue ranges from \$231 to \$340 per pupil unit in 1997-98 since it includes the additional Technology Revenue (1997-98 only).

School Facilities

New Presidential Disaster Declaration - The Department was informed that Governor Arne Carlson's request for a Presidential Disaster Declaration in seven Minnesota counties has been approved. This implies that federal aid programs will be available in Anoka, Hennepin, Isanti, Kandiyohi, Ramsey, Sherburne and Wright counties for damages sustained from severe storms, high winds, tornadoes and flooding that occurred during the period of June 28 through July 27. The Federal

Emergency Management Agency (FEMA) Director, James Lee Witt, said federal funds will be provided for the State and affected local governments in the seven designated counties to pay 75 percent of the loss for debris removal, emergency services related to the disaster, and restoring damaged public facilities, such as schools and recreation areas. For additional information, contact Phil Allmon at (612) 296-9786.

UFARS Manual Update

1. **Turnaround Reports** - Within a few days after the Department receives a district's year-end financial data from either the Regional Management Information Center via computer tape or directly from the district via computer disk, a turnaround report is sent back to the district. This report contains the following information:
 - (1) Revenue Summary - by Fund and Source (1 page)
 - (2) Expenditure Summary - by Fund and Org, Prog and Object Series (2 pages)
 - (3) Balance Sheet - by Fund and GNL Account (2 pages)
 - (4) Finance Code Expenditures (for categorical revenues) - This is a new report that includes all expenditures that require separate accounting. The report is sequenced by Finance, Program and Object Codes. The report also includes the UFARS program code expenditures:
 - Program Code 217 - Assurance of Mastery
 - Program Code 930 - Employee Benefits (should be zero)

Also within a few weeks of receiving the district's audited financial report, a turnaround report is sent to the district which includes a comparison between the UFARS data and the audit report. The Department is using the attached Compliance Table of UFARS data (68 elements). If any of the data elements do not agree with the audit, a district must correct it by December 31, 1997.

2. **Area Learning Center (ALC) and State Approved Public Alternative Revenue** - 1997 Legislation requires districts to reserve 90 percent of the General Education revenue generated by students enrolled in its ALCs and public alternative schools for those schools. School Business Bulletin No. 1 referred to the new UFARS codes that have been created to account for this change (UFARS Manual Update Section).

Both districts that generate the revenue for these students and the districts hosting ALCs and public alternative schools need to establish reserved fund balance accounts. For expenditures, ALCs must use the new Finance Code 303: for state-approved public alternative schools, use new Finance Code 305.

3. **Discontinued Funds** - Since the Transportation Fund (03) and Capital Expenditure Fund (05) have been discontinued as of July 1, 1996, all fund balances must be transferred to the General Fund as of June 30, 1997. These transfers are considered residual equity transfers according to the Governmental Accounting Standards Board (GASB) and should be treated as such in the annual financial audit report. The chart below indicates the various Fund Balance Accounts to collapse.

Funds 03/05	Fund 01
401 - Reserved for Equipment	424 - Reserved for Operating Capital
402 - Reserved for Facilities	424 - Reserved for Operating Capital
406 - Reserved for Health & Safety	406 - Reserved for Health and Safety
411 - Reserved for Severance	411 - Reserved for Severance
412 - Reserved for Bus Purchases	412 - Reserved for Bus Purchases
418 - Designated for Severance Pay	418 - Designated for Severance Pay
419 - Reserved for Enc	419 - Reserved for Enc
422 - Unreserved	422 - Unreserved
427 - Reserved for Disabled Access	427 - Reserved Disabled Access
433 - Reserved for Transp. Safety	433 - Reserved for Transp. Safety

General Information

- **Minnesota Charter School Directory** - A directory of Minnesota Charter Schools as of August 1997 is now available. If interested, contact Bill Allen at (612) 296-4213.
- **Profiles Report** - The Profiles Report for 1995-96 will be available soon. Information related to this report will be included in a future Bulletin.
- **Workshops/Meetings** -
 - MASA Fall Conference - Brainerd (September 28-30)
 - School Business Forum - St. Paul (October 10)*
 - Accounting Guidelines Committee Meeting - St. Paul (October 15)
 - MASBO Fall Workshop and Meeting - Minneapolis (October 23-24)

* If anyone is interested in serving on the School Business Forum, please contact Gary Farland (address and phone number on cover page). The Forum is an advisory Committee to the Department and discusses timely items related to school business management. The first meeting of 1997-98 is October 10 in St. Paul.