

May 31, 2006

Advisory Committee on Financial Management, Accounting and Reporting

The Advisory Committee met on May 31, 2006. Members in attendance: Nancy Ramler, Elaine DeWenter, Barb Anderson, Cathy Holm, Susan Paulson, Julane Meyer, Greg Hierlinger, Deborah Medlin, Margo Nash, Darin Jensen, Jaber Alsiddiqui, Tiffany Rodning, Jodie Zesbaugh Others in Attendance: Tom Berge, Sandy Booth, Darwin Viker, Dick Guevremont (MDE), Deb Firkus (MDE), Mary Annala (MDE), John Koehler (MDE), Phil Allmon (MDE), John Ryberg (MDE), Ken Moos (MDE), Bill Kiesow (MDE), Chris Kubesh (MDE), Bob Porter (MDE), and John Bulger (MDE).

Dick Guevremont opened the meeting at 12:15 p.m. and introduced the new committee members: Elaine DeWenter, Jaber Alsiddiqui, Catherine Holm, Jodie Zesbaugh and Deborah Medlin. Guevremont reviewed the agenda and asked for additional item(s). Barb Anderson asked that Hurricane Impact Aid be added to the agenda. Motion (Ramler/Anderson) passed unanimously to approve the agenda with the addition of one item.

Guevremont presented the prior meeting minutes (January 17, 2005) for review and approval by the committee. A motion passed unanimously (Darin/Meyer) to approve the minutes.

Guevremont introduced Tom Berge and Sandy Booth from Minnetonka Public Schools. Tom gave a presentation on the School District Consolidated Financial Statement. Tom provided the committee with three handouts: Financial Reporting...Bridging the Gap, School District to Private Sector, Summary of School Finances Committee, and Minnetonka School District's Financial Summary. Tom's presentation highlighted the school finance committee participation, why the committee was formed, what was created and list of districts that tested the new reporting format. Tom explained that the traditional reporting model can be misleading and that the new format is more aligned with the private sector financial report. The private sector financial report has two major categories: Cost of Goods Sold and General and Administrative Expenses. The parallel in public education is the "Cost of Teaching and Learning" which should include all costs at the building and district level that are required to provide an education to a student. Tom provided an overview of the UFARS codes used to create the financial report. In summary the new reporting format shows that approximated 95% of General Fund resources are allocated to Teaching, Learning and Transportation at the Minnetonka School District. The district allocates about 5% of their General Fund resources to General and Administrative expenses. A spreadsheet and directions are available to any district interested in the revised report format.

Guevremont discussed M.S. 123B.77, Sections 8 and 9. The statute states, "the commissioner, in consultation with the advisory committee on financial management, accounting, and reporting, shall develop and maintain a school district consolidated financial statement format that converts uniform financial accounting and reporting

standards data under subdivision 1 into a more understandable format.” Dick explained that the committee will need to develop a procedure to comply with this statutory requirement.

Margo Nash asked about the financial report presented by Tom Berge and his group’s work with the legislature. Tom explained that they had presented the financial report at House and Senate legislative committee hearings. Tom thought the financial report developed would be a good starting point with the expectation that modifications will be made. Ken Moos inquired if the financial report presented by Tom was what the legislators are looking for or is there additional information that should be incorporated in the financial report. Tom was not aware of any other reports or formats. Mr. Berge emphasized that the purpose of the financial report is to provide financial information on the operations of a school district and it is not a cost accounting report.

Guervemont recommended the creation of a committee to develop a process, procedures and report format to comply with MSS 123B.77, Sections 8 and 9. The following members volunteered: Margo Nash, Jaber Alsiddiqui, Nancy Ramler, Greg Hierlinger, Julene Meyer, Jodie Zesbaugh.

Greg Hierlinger suggested that the committee obtain information regarding legislative intent with regard to the statutory requirement. Guervemont volunteered that he would contact Tim Strom and see if he would be available to discuss legislative intent with the committee.

Guevremont facilitated the election of a new chair and vice chair of the Advisory Committee. Margo Nash was nominated as chair and voted in unanimously. Jaber Alsiddiqui was nominated as vice chair and voted in unanimously.

Guevremont provided an overview of the new legislation passed during the recent legislative session. Two handouts were distributed to participants: Chapter 263 – 2006 Omnibus Education Policy Act and a portion of S.F. No. 2994. Dick highlighted legislation pertaining to: Q Comp Revenue Reporting by Building (Section 3), Transition for Pre-Kindergarten Revenue (Sections 10 – 12), Inflation Adjustment on Operating Referendum Ballot (Section 13), Unemployment Levy Clarification (Section 14), Safe Schools Levy (Section 15), School District Consolidated Financial Statement (Sections 8 and 9), Transportation Notification from Charter Schools (Section 15), Advisory Task Force on School and Staff Emergency/All Hazard Preparedness (Section 24), Special Education Tuition Billing (Section 1, 15), Excess Cost Aid Calculations for Q Comp Districts (Section 11), Budget Publication (Section 1), One-Time Energy Assistance Aid (Sections 3 and 4), School Lunch Aid (Sections 1 and 2), Health and Safety Testing and Calibration (Section 1)

Ken Moos provided a summary of 2005 legislation that will have an impact on FY06 accounting records. MSS 124D.52 Section 1, Subdivision 3b, ...an adult basic education program may include as valid expenditures for the previous fiscal year program spending that occurs from July 1 to September 30 of the following year. A program may carry

over a maximum of 20 percent of its adult basic education aid revenue into the next fiscal year. Program spending may only be counted for one fiscal year. Ken explained that districts should use course code 006 for any carryover funds and course code 007 for everything else.

Darwin Viker presented information and a handout regarding Other Post-Employee Benefits (OPEB). The handout was from the Wisconsin Department of Public Instruction – Employee Benefit Fund (Fund 73) Requirements prepared by Kathy Guralski, School Finance Auditor. Darwin explained that at this time several questions have been raised regarding the implementation of GASB 45-OPEB accounting for school districts. The implementation deadline for phase one is 2008.

Guevremont asked about the State Auditor's involvement regarding implementation? Greg Hierlinger explained that the auditor's office is doing a survey and will be publishing the survey results.

Margo Nash recommended setting up a committee to develop recommendations for the implementation of GASB 45–OPEB accounting. The following volunteered to be on the committee: Darwin Viker, Greg Hierlinger, Tiffany Rogning, and Deb Firkus.

Ken Moos presented and distributed a handout regarding proposed new program codes in FY07 to be used in the tracking of technology expenditures throughout the district. These codes would allow the separation of expenditures between administrative, instructional, general instructional support and district wide infrastructure.

Ken Moos presented and distributed a handout regarding Q-Comp accounting. The handout provided examples of the accounting treatment for Q-Comp expenditures in the first program year and subsequent program years. UFARS Finance Code 335 has been created for Q-Comp transactions. A Q-Comp committee was developed to research the accounting treatment for the second and subsequent program years. Barb Anderson and Nancy Ramler volunteered to be on the committee.

Ken Moos discussed and distributed a letter from the State Auditor's Office addressed to the Fergus Falls Public School discussing Tobacco Settlement disbursements. The Advisory Committee felt it would be beneficial to distribute a copy of the letter to school districts. Dick Guevremont also stated that he has encouraged school districts to consult with legal counsel prior to disbursing Tobacco Settlement funds.

The agenda item Junior Achievement Programs in School was tabled to be discussed at a subsequent meeting.

Barb Anderson had brought to the attention of the Advisory Committee that comments have been circulating that the department will be discontinuing the use of chargeback codes for Employee Benefit Allocation Accounting. Ken Moos informed the Advisory Committee that the department had no intention of changing the accounting practice for Employee Benefit Allocation Accounting.

Phil Allmon provided information and a handout on Alternative Facilities – Health and Safety Projects (MSS 123B.59, Subdivision 1b). Phil informed that group that beginning in fiscal year 2007 school districts that have Health and Safety projects that are over \$500,000 will become part of the Alternative Facilities funding and will be required to account for project costs through assigned course codes to individual construction projects. The course codes may be carried over more than one fiscal year as the construction projects progress toward completion. School districts that are part of the Alternative Facilities program will also use the course codes to report construction costs to MDE. Phil stated that a reference manual providing guidance on the Alternative Facilities program can be reviewed on the MDE website.

Dick Guevremont and Deb Firkus presented information relating to school district wind generation projects. The title of the handouts were: MS 123B.02, Subdivision 21, Mankato Free Press article *Wind entices St. Peter schools*, Johnson Controls News Release *Erie Community Unit School district No. 1 Uses Wind Power to Address Energy Crisis*, Wisconsin School District Wind Project “*Energy for Education*”. Deb explained that school districts have the statutory authority to have a wind energy conversion system; however, the statute does not address or provide school districts with the authority to fund the initial investment to build the wind turbine. The Federal government has a program that provides interest free bonds and approximately 14 school districts have applied for these interest free bonds; however, school districts appear to not have the authority to issue these government bonds. Deb explained that 14 school districts have requested to meet with the State Auditor’s Office to determine if they have the authority to invest public funds in wind energy conversion systems. Chris Kubesh explained that the Federal government would allocate the funds directly to the school districts and the state would not be involved.

John Ryberg attended a wind energy meeting in Chippewa Falls. To date the federal government has not passed legislation to approve funding. John explained that the cost of maintenance to keep the equipment in proper working condition could be cost prohibitive. John cautioned investing in wind turbines because the return on the dollar may be limited due to high maintenance costs and many unanswered questions and variables. Dick Guevremont and Deb Firkus are working to get a written opinion from the State Auditor’s Office. The Attorney General’s Office may need to be contacted for a legal opinion.

Barb Anderson asked about the accounting treatment for a non-public school that qualifies for Hurricane Aid. Ken Moos would research and provide Barb with the accounting treatment.

The next Advisory Committee meeting is scheduled for Wednesday, September 20, 2006 at Minnesota Department of Education.

Meeting Adjourned at 3:50 pm.