

**Advisory Committee on Financial Management, Accounting and Reporting Minutes**

**Time: 12:00 P.M. Date: December 21, 2011**

**Members Attending:** Angie Manuel, Sarah Slaby, Dianna Groskreutz, Lori Mohs, Janet Halonen, Jeff Yeager, Nancy Schulzetenberg, Tracey Fiereck, Stella Johnson, David Peterson, Cindy Longhenry, Sue Nelson.

**Minnesota Department of Education (MDE) Staff Attending:** Tom Melcher, Audrey Bomstad, Lisa DeRemee, Greg Hein, Sarah Miller, Patti Scott, and David Day.

**Members Absent:** Greg Hierlinger, Tiffany Rodning

**Call to Order:** Chair Angie Manual called the meeting to order at 12:05 P.M.

**Approval of October 19, 2011, Meeting Minutes:** Jeff Yeager moved to approve the minutes; Tracy Fiereck seconded the motion. Minutes were approved by a voice vote.

**MDE Website Feedback:** Lisa DeRemee initiated discussion regarding the updated changes to the MDE website. Lisa also distributed a "Feedback on New MFR Website" provided by the MDE IT department. Tracy Fiereck continued discussion with results of a survey conducted regarding functionality issues with the new MDE website. Several function and viewing issues were discussed, with a major concern being that the new website uses Microsoft office 2010 version as a platform. Many schools are using MS Office v 2007. The result is schools are unable to open files posted on the MDE website. Committee sought to have MDE IT make the files readable by MS v2007 or assist with a conversion program for MS Office v 2007 users. Other concerns identified included: the posting of the UFARS Manual as a single pdf document makes it difficult to print select chapters and to identify the last date a particular chapter was updated; SERVS Tutorial PowerPoint presentations, which were the sole user resource available to districts, are no longer available on the website.

Lisa will distribute, via business manager's listserv, a link to where users may submit suggestions for website enhancements and fixes to MDE IT for consideration to improve the user experience.

Patti will research a link for schools to view Food and Nutrition Service (FNS) payments within SERVS.

**GASB proposed changes to public pension financial reporting**

David Peterson presented a portion of a PowerPoint presentation from the November 18, 2011, MASBO conference regarding GASB exposure draft Net Pension Liability. The pending GASB implementation may be a codicil to GASB 45 and is tentatively set for 2014. The draft, when implemented, would require schools to report their allocated portion of unfunded retirement liability maintained at the state

trust fund. Discussion included, If the state trust fund has unfunded liabilities, who actually owns the liability? Schools districts pay to the trust fund at the level they are required to pay by the trust so, from the schools' perspective, districts have fully funded their portion. Discussion also questioned how the proposed changes would impact districts' financial statements.

The committee suggested that at present, this issue may be about a liability which may not exist for financial statements but may create a need for disclosure in financial statement notes. The discussion conclusion was to continue to monitor the progress of the pending changes and study the impact of the new ruling as we proceed.

### **Literacy Incentive Aid Program**

Tom Melcher made a presentation (copy included with minutes) outlining the new Literacy Incentive Aid program. Key points: the program was authorized in Laws of Minnesota 2011, First Special Session, Chapter 11, Article 2, Section 43, and is codified in Minnesota Statutes, Section 124D.98; aid is effective beginning in FY 2013 and is based on prior year October 1<sup>st</sup> enrollment of schools enrolling students in grades 3 and 4. The program has two components: proficiency aid of \$85 per student times the percentage of third graders meeting or exceeding proficiency on the third grade reading MCA; and growth aid of \$85 per student times the percentage of fourth graders making medium or high growth on the reading MCA. Test scores are averaged across the three previous test administrations: FY 2010, 2011, and 2012 for FY 2013 aid.

Tom indicated there may be future legislative action in the upcoming session to adjust the enrollment base used for calculation. As written, aid is not based upon the number of third and fourth grade students but the total enrollment of schools enrolling third and fourth graders, so schools with a narrower grade span receive less aid than those with a like count of third and fourth grade students enrolling grades K through 8.

A UFARS new source code, 212, will be added to UFARS in FY 2013 for these state aid funds. Finance 000 will be used to record revenues and expenditures.

The committee requested that Tom's presentation be included in the next School Business Bulletin.

### **Overview of New School Finance Award Criteria**

Sarah Miller reviewed the criteria for the FY 2011 School Finance Award. School Finance will post to the MDE website a listing of schools eligible to apply for the award, based upon meeting the statutory deadlines for submission of UFARS data and an audited financial statement. Also noted: the award criterion for submission of preliminary unaudited UFARS data by September 15 was modified to September 30, 2011 due to the delay in opening UFARS; and the statutory deadline for submission of an audited financial statement to MDE is Tuesday, January 3, 2012, since the December 30 statutory deadline falls on a Saturday. The criterion for no variances on the SERVS/UFARS Comparison report will be implemented as the Report was completed in late October.

Committee members raised concerns regarding the late release of modifications to the SERVS/UFARS Comparison Report to accommodate Title REAP flex funds. Audrey indicated that the Report was established as a tool to assist districts with reconciling SERVS and UFARS, but emphasized that districts have other means locally to perform the reconciliation even if the report had not become available. The need to reconcile was present in all circumstances. Cindy Longhenry cited reporting requirements that for certain state special education expenditures that are reported on UFARS but not on EDRS, which would result in a valid variance. Sarah acknowledged in some instances, a school by school review may be necessary to establish eligibility for the Award.

There was also discussion about whether the award should be changed in form, criteria, and name. It was suggested the Advisory Committee could assist.

Sarah will provide a pathway to the new website location for “Report Card” link.

### **Reporting Equity and Operating Transfers**

Jeff Yeager opened discussion regarding conflicts between GAAP and UFARS on the topic of reporting equity transfers and operating transfers. Equity transfers are not permitted by GAAP but allowed by state law. An example used was Fund 7 Debt Service. Statutes require any balance left in the fund be used to reduce general fund levies; the balance must be transferred to Fund 01, Balance Sheet Account 416 in the fiscal year the levy adjustment is recognized. This would be considered an equity transfer in UFARS. The discussion was to clarify how to best manage and equity reporting and develop a mechanism within UFARS to meet compliance between law and GAAP.

The discussion concluded with these directions: consider establishing new source and object codes to allow the capture of the data as required by statutes; and confirm how statutorily-required transfers may be reported under “Other Sources/Uses” on the financial statements.

School Finance will do further research and create a proposal for managing equity transfers.

### **Continuation of Discussion, UFARS Capital Expenditure Reporting**

Angie Manuel opened discussion of UFARS capital expenditure reporting. A language change in the UFARS manual description of the capital expenditure object code series has created unintended actions by other MDE divisions, particularly the Food and Nutrition Services (FNS). The portion of the definition stating the investment must be “at least \$500” was removed, as there is/was not any readily identifiable basis in state statute, federal regulations, or accounting principles to support this. A reference to the \$5,000 Federal threshold for purchase of equipment was included.

State law requires approval of all food service fund capital equipment expenditures; FNS has been returning districts’ applications for purchases less than \$5,000, causing confusion.

Discussion/conclusions:

Districts will need to establish individual thresholds based on materiality relative to the size of the school, seeking guidance from their accounting firm.

FNS will be updating their requirements for the approval process and what qualifies to be a depreciable asset.

School Finance will research a means to record equipment purchases at levels less than \$5,000, which may also dovetail with FNS guidelines.

School Finance will also look at how the changes may impact special education issues.

**Other Business – None offered**

**Note:** Commissioner Dr. Brenda Cassellius had been scheduled to speak to the committee, but was unable to attend today's group.

The next meeting will be scheduled for either February 22 or 29 and announced by e-mail.

There being no further business, the meeting was adjourned at 3:00 P.M.