

Management Report

for

Intermediate School District No. 917  
Rosemount, Minnesota  
June 30, 2011



PRINCIPALS

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To the School Board of  
Intermediate School District No. 917  
Rosemount, Minnesota

We have prepared this management report in conjunction with our audit of Intermediate School District No. 917's (the District) financial statements for the year ended June 30, 2011. The purpose of this report is to communicate information relevant to the financing of public education in Minnesota and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your District
- Accounting and Auditing Updates
- Legislative Summary

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

This report is intended solely for the information and use of those charged with governance of the District, the School Board, management, and those who have responsibility for oversight of the financial reporting process and is not intended to be, and should not be, used by anyone other than these specified parties.

*Malloy, Montague, Karnowski, Radosevich, & Co., P.A.*

December 1, 2011

## AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND THE U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

### **AUDIT OPINION AND FINDINGS**

Based on our audit of the District's financial statements for the year ended June 30, 2011:

- We have issued an unqualified opinion on the District's annual financial statements.
- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We noted that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the District has complied, in all material respects, with the compliance requirements that could have a direct and material effect on each major federal program.
- We reported no deficiencies in the internal controls over compliance and its operation that we consider to be material weaknesses in our testing of major federal programs.
- We reported one finding based on our testing of the District's compliance with Minnesota laws and regulations:

District contracts for construction services must include specific language that requires the prime contractor to pay any subcontractors within 10 days of the prime contractor's receipt of payment from the District or pay interest at the rate of 1.5 percent per month on any unpaid balance. This required language was not included in one contract awarded by the District during the year ended June 30, 2011.

## **EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**

In accordance with Minnesota Statutes, the District's School Board has elected not to exercise control over the transactions of the extracurricular student activity accounts maintained at various district sites. Consequently, the cash receipts and disbursements of the District's extracurricular student activity accounts are reported in a separate set of financial statements, rather than being reported within the District's General Fund. We have issued an opinion on these separate financial statements, stating that they fairly present the recorded cash transactions of these accounts for the year ended June 30, 2011.

We also issued a report on compliance with the Minnesota Department of Education's (MDE) *Manual for Activity Fund Accounting (MAFA)*, in which we reported the following findings:

- Six out of six receipts we tested did not have adequate backup documentation completed by the appropriate parties for compliance with *MAFA* guidelines.
- Three of six cash receipts we tested accounted for by the District as student activities were not deposited in a timely manner or lacked documentation to allow us to determine if they were deposited in a timely manner.
- Two of the student activity accounts we tested did not have activity purpose forms completed.

## **SIGNIFICANT ACCOUNTING POLICIES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements. For the year ended June 30, 2011, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement established new fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

## **ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for fiscal 2011 is not finalized until after the District has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Assets for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for other post-employment benefits (OPEB). These obligations are calculated using actuarial methodologies described in GASB Statement No. 45. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management in the areas discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

#### **CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

#### **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### **MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### **MANAGEMENT REPRESENTATIONS**

We have requested certain representations from management that are included in the management representation letter dated December 1, 2011.

## FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. The last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

### BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. We have adjusted the percentage change from year to year for non-comparable changes such as referendum reduction and aids that were previously separately funded and subsequently “rolled-in” or “rolled-out” to general education revenue.

Fiscal Year Ended June 30,	Formula Allowance	
	Amount	Percent Increase
2002	\$ 4,068	2.6 %
2003	\$ 4,601	2.6 % (1)
2004	\$ 4,601	– %
2005	\$ 4,601	– %
2006	\$ 4,783	4.0 %
2007	\$ 4,974	4.0 %
2008	\$ 5,074	2.0 %
2009	\$ 5,124	1.0 %
2010	\$ 5,124	– %
2011	\$ 5,124	– %
2012	\$ 5,174	1.0 %
2013	\$ 5,224	1.0 %

(1) Percentage adjusted to eliminate changes caused by referendum reduction and rolled-in (out) aids which does not affect total district revenue.

As noted in the table above, after having been frozen at the same level for the last three years, the Legislature has added \$50 to the basic formula allowance for both fiscal 2012 and 2013. In recent years, the modest increases in the formula allowance have forced many districts to continually cut expenditure budgets or seek increased referendum revenue in order to maintain programs.

The table above does not reflect temporary funding changes such as the \$51 per pupil unit one-time additional general education aid school districts and charter schools received in 2008–2009, or the technology and operating capital aid received by school districts and charter schools in 2007–2008 (\$40 per pupil unit) and 2008–2009 (\$55 per pupil unit). It also does not reflect the one-time replacement of a portion of a district’s general education aid with federal fiscal stabilization funds in fiscal 2010.

## **STATE OUTLOOK**

The 2011 legislative session began with the Governor and Legislature facing a projected budget deficit of \$6.2 billion (later revised down to \$5.0 billion in the February 2011 Economic Forecast) for the 2012–2013 biennium. In addition, the 2010 election had dramatically changed the state’s political landscape. A Democratic Governor was in power for the first time since 1991, while the Republicans had majority control of both the House and the Senate for the first time since 1971. Predictably, as the session progressed it became clear that the Governor and Legislature were having difficulty agreeing on a state budget for the next biennium. Shortly after the 2011 regular session ended, the Governor vetoed eight major state appropriation bills and the omnibus tax bill passed by the Legislature, which left the majority of state agencies without a budget for the next fiscal year. This resulted in a shutdown of “nonessential” state agencies that began July 1, 2011 and effectively ended with the passing of appropriation bills in a special session on July 19th and 20th.

The large projected budget deficit facing the 2011 Legislature was typical of the financial challenges the state has experienced in recent years. Unfavorable economic conditions have caused a steady deterioration of the state’s financial condition, which has resulted in series of cuts and holdbacks in state aids to local governments and other entities. As was the case in the last biennium, the adopted state budget for 2012–2013 utilized several large “accounting shifts” in an attempt to minimize the need for tax increases or state aid cuts to balance the budget. The accounting shifts, further explained in the Legislative Summary section of this report, included delaying an even higher percentage of estimated state aid payments to school districts and charter schools, and a small expansion of the “tax shift,” which accelerates the recognition of district tax levy revenue with an offsetting reduction in state aid. Both of these types of shifts significantly reduce the amount of operating cash available to Minnesota school districts and charter schools, but are intended to be revenue neutral. While these shifts have spared districts from deeper aid cuts in the short-term, some argue that their use does not address the state’s budget woes, but only delays them. If the economy remains sluggish, further state budget shortfalls are likely.

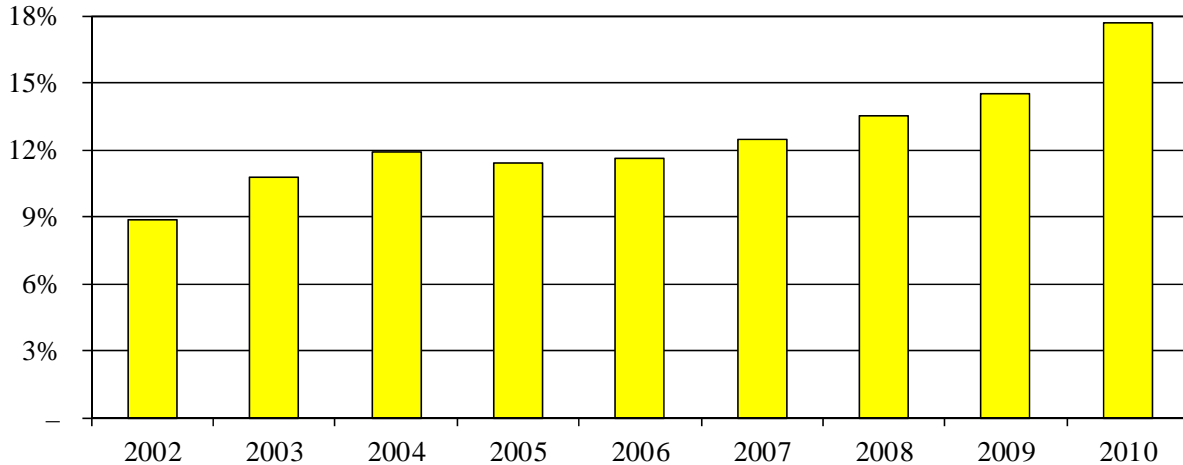
## **EFFECT ON INTERNAL CONTROLS**

These circumstances have resulted in a sustained cycle of budget reductions for many Minnesota school districts and charter schools, forcing many to make significant staffing cuts or reassignments. In some cases, such measures have weakened internal controls by reducing the segregation of accounting duties or delaying the performance of key control procedures. Unfortunately, the economic downturn has also placed additional financial strain on many individuals, elevating the risk of fraud and theft. Recent communications from the Minnesota Office of the State Auditor have reported a substantial increase in incidents of fraud and theft involving local governments. A comprehensive and functioning system of internal controls is critical to safeguarding public assets and producing the accurate and timely financial information necessary to effectively manage a school district. When faced with difficult budgetary decisions, we encourage our clients to be mindful of these factors and to continue to make sound financial controls a priority.

## STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unrestricted (formerly unreserved) operating fund balance as a percentage of operating expenditures.

State-Wide Unrestricted /  
Unreserved Operating Fund Balance  
as a Percentage of Operating Expenditures



Note: State-wide information is not available for fiscal 2011.

The calculation above reflects only the unreserved fund balance of the General Fund and the corresponding expenditures, which is the same method which the state now uses for the calculation of statutory operating debt (SOD).

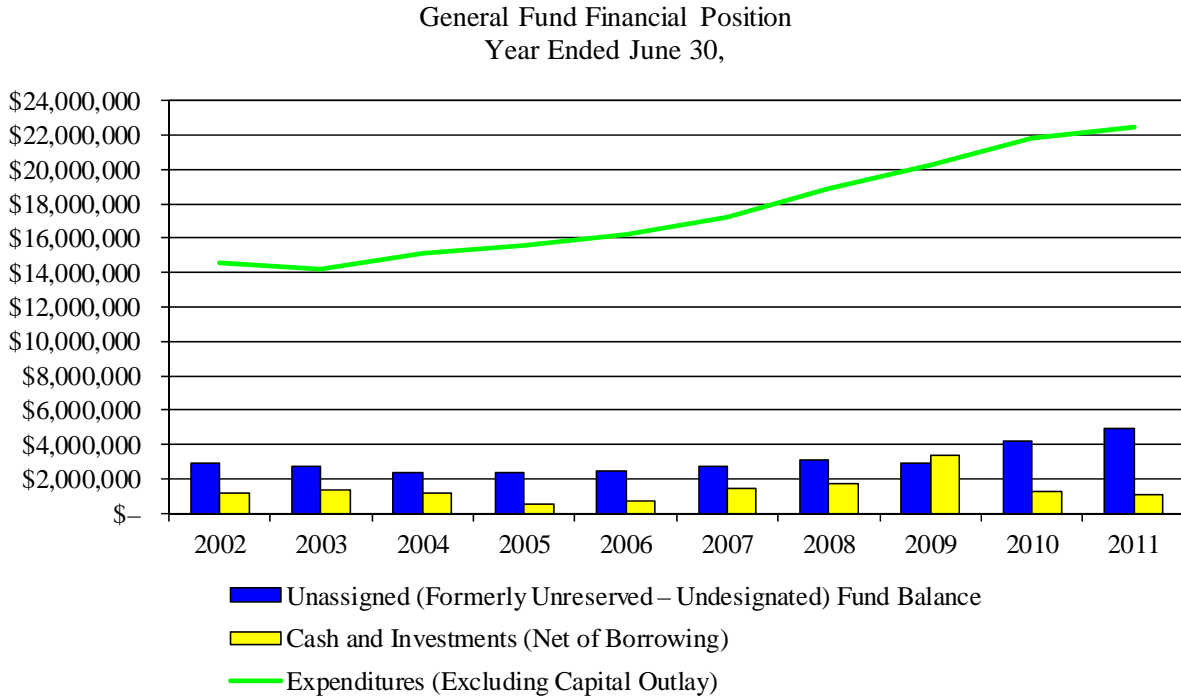
Even with limited funding increases, school district unrestricted/unreserved fund balance has been increasing as a percentage of operating expenditures on a state-wide basis in recent years. This trend is the result of many factors, including districts reducing operating expenditures, adapting to funding restrictions, efforts to maintain fund balance for cash flow purposes, and in some cases community support in the form of operating referendums.



## FINANCIAL TRENDS OF YOUR DISTRICT

### GENERAL FUND OPERATIONS AND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unassigned (formerly unreserved – undesignated) fund balance and cash balance are typically used as indicators of financial health, while annual expenditures are often used to measure the size of the operation.



The District ended fiscal year 2011 with a General Fund cash balance (excluding cash held by trustee) of \$1,062,392, a decrease of \$203,811 from the previous year. Unassigned (formerly unreserved – undesignated) fund balance at year-end was \$4,909,422, an increase of \$723,196.

This change in cash was primarily due to the change in metering of state aid payments in fiscal year 2011. The cash balance did not increase in relation to the fund balance in the current year due to the General Fund receivable from the MDE increasing \$1.2 million in the current year.

The following table presents the components of the General Fund balance for the past five years:

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Nonspendable fund balances	\$ -	\$ -	\$ -	\$ 11,115	\$ 4,806
Restricted (formerly reserved) fund balances	-	584,800	567,941	1,614,259	1,604,790
Unassigned (formerly unreserved – undesignated)	2,752,544	3,125,745	2,946,371	4,186,226	4,909,422
<b>Total fund balances</b>	<b>\$ 2,752,544</b>	<b>\$ 3,710,545</b>	<b>\$ 3,514,312</b>	<b>\$ 5,811,600</b>	<b>\$ 6,519,018</b>
Unassigned (formerly unreserved – undesignated) fund balances as a percentage of noncapital expenditures	15.9%	16.5%	14.5%	19.2%	21.9%
Cash and temporary investments	\$ 1,428,650	\$ 1,758,019	\$ 3,332,744	\$ 1,266,203	\$ 1,062,392

The table above reflects the unassigned (formerly unreserved – undesignated) fund balance and their respective percentages based on accounting principles generally accepted in the United States of America. The resources represented by these fund balances are critical to a district’s ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

The significant change in equity components on the table above is a result of the implementation of GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

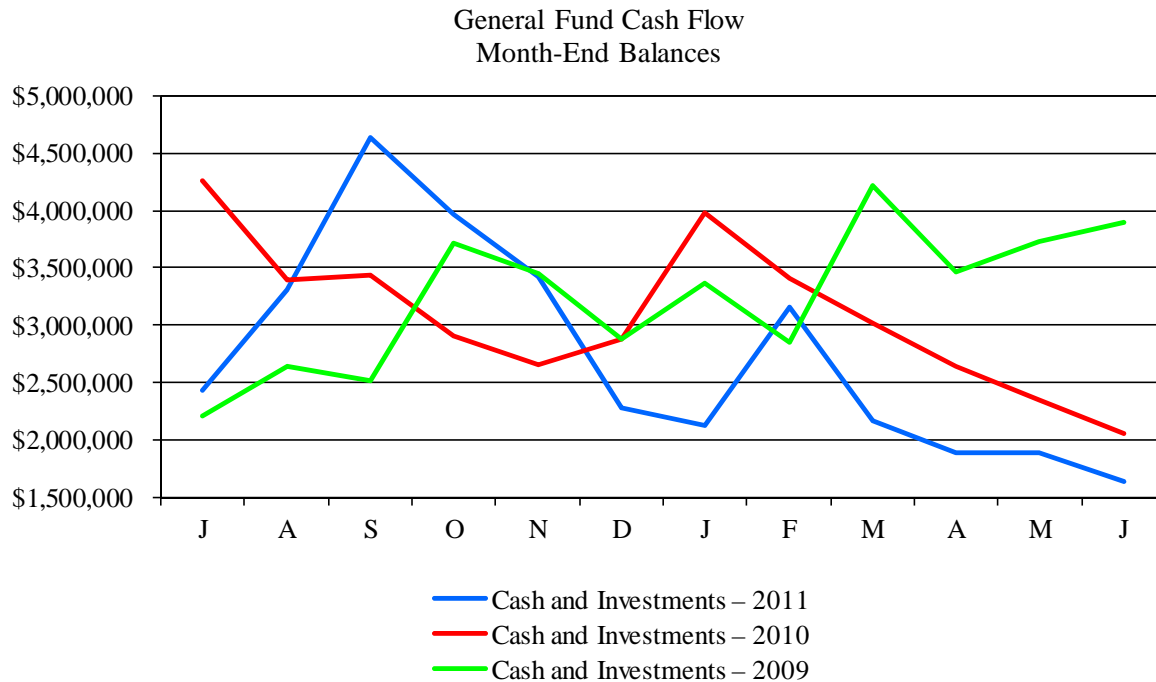
Fund balance as a percentage of expenditures is one key measure in assessing the financial health of the District. Maintaining an adequate fund balance is particularly important because of the limited availability of borrowing for the District and the need for the General Fund to be self-sustaining in its cash flow needs.

The fund balance remains healthy when compared to the level of district expenditures. The District’s plan, based on current fund balance policy, is to maintain this percentage at 15 percent of the annual budget. At June 30, 2011, the District has exceeded that policy with a fund balance as a percentage of expenditures of 21.9 percent.

The restricted fund balance amounts listed in the table above represent amounts restricted for basic skills activity and accumulated assets from capital related transactions that are restricted for the payment of debt service or future capital-related projects.

## GENERAL FUND CASH FLOW

In addition to changes in the level of cash and investments from year to year, the level of cash and investments available from month to month varies considerably due to the timing of various revenues and expenditures during the year. The following graph summarizes the level of cash and investments (including cash held by trustee) during the past three fiscal years:



The graph above shows the swing in cash balances from month to month. These changes from month to month are due to the billing cycles of the District. The District pre-bills member districts for estimated current year services. At the end of the fiscal year, all non-special education billings are finalized and pre-billings are credited against these year-to-date bills.

This decrease in cash balance toward the end of fiscal 2011 is related to the increased receivable from the MDE.

Changes in funding structure and state aid payment schedules significantly affect the cash flow of Minnesota school districts. As further described in the Legislative Summary section of this report, state aids normally paid on a 90–10 schedule were changed to a 73–27 schedule for fiscal 2010 and 70–30 for fiscal 2011.

## GENERAL FUND OPERATIONS AND FINANCIAL POSITION BY ACCOUNT

The following tables present comparative operating results for some of the accounts of the District's General Fund:

### Secondary Education Account

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenue and other income	\$ 3,453,458	\$ 3,962,531	\$ 3,574,708	\$ 3,892,238	\$ 3,888,279
Expenditures	3,296,757	3,695,335	3,585,077	3,807,382	3,872,245
Excess (deficiency)	156,701	267,196	(10,369)	84,856	16,034
Transfers out	—	—	(120,000)	—	—
Net change in fund balances	156,701	267,196	(130,369)	84,856	16,034
Fund balances					
Beginning of year	1,573,019	1,729,720	1,996,916	1,866,547	1,951,403
End of year	\$ 1,729,720	\$ 1,996,916	\$ 1,866,547	\$ 1,951,403	\$ 1,967,437

This account experienced a net increase in fund balance of \$16,034 during fiscal 2011. This compares to a budgeted decrease of \$212,652. Both revenues and expenditures ended the year lower than budgeted by \$118,457 and \$347,143, respectively.

Total revenue and other income in the Secondary Education Account of the General Fund totaled \$3,888,279 for fiscal 2011, a decrease of \$3,959 from the previous year.

### Special Education Account

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenue and other income	\$ 13,721,925	\$ 14,961,590	\$ 15,710,134	\$ 18,218,537	\$ 18,423,168
Expenditures and other financing uses	13,597,791	14,899,905	15,709,759	17,271,862	17,694,715
Net change in fund balances	124,134	61,685	375	946,675	728,453
Fund balances					
Beginning of year	1,028,501	1,152,635	1,214,320	1,214,695	2,161,370
End of year	\$ 1,152,635	\$ 1,214,320	\$ 1,214,695	\$ 2,161,370	\$ 2,889,823

This account experienced a net increase in fund balance of \$728,453 during fiscal 2011, which compares to a budgeted decrease in fund balance of \$107,017 for the year. This occurred as a result of expenditures being less than budget by \$880,017 due to additional staffing compliments included in the budget not being utilized and new curriculum purchases included in the budget being delayed until fiscal 2012.

Special Education Account expenditures increased \$419,316 in fiscal 2011 mostly due to increases in salaries and benefit costs.

## District Support Services Account

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenue	\$ 179,643	\$ 155,710	\$ 64,729	\$ 95,724	\$ 71,501
Expenditures	174,081	135,085	71,723	86,673	75,741
Excess (deficiency)	5,562	20,625	(6,994)	9,051	(4,240)
Transfers in	118,350	—	—	—	—
Net change in fund balances	123,912	20,625	(6,994)	9,051	(4,240)
Fund balances					
Beginning of year	(122,246)	1,666	22,291	15,297	24,348
End of year	\$ 1,666	\$ 22,291	\$ 15,297	\$ 24,348	\$ 20,108

This account experienced a net decrease in fund balance of \$4,240 during fiscal 2011, which compares to a budgeted zero change in fund balance.

## Secondary Resale and Special Education Resale Accounts

	Year Ended June 30,				
	2007	2008	2009	2010	2011
Revenue and other income	\$ 142,865	\$ 136,441	\$ 91,273	\$ 189,695	\$ 158,906
Expenditures	159,493	112,799	81,992	178,228	146,546
Excess (deficiency)	(16,628)	23,642	9,281	11,467	12,360
Transfers in (out)	(118,350)	—	120,000	—	—
Net change in fund balances	(134,978)	23,642	129,281	11,467	12,360
Fund balances					
Beginning of year	—	(134,978)	(111,336)	17,945	29,412
End of year	\$ (134,978)	\$ (111,336)	\$ 17,945	\$ 29,412	\$ 41,772

This table combines the activities of the District's Secondary Resale Account and the Special Education Resale Account.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The GASB Statement No. 34 reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net assets represent the resources the District has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, the statement divides the net assets into three components: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The following table presents a summarized conversion of the District's governmental fund balances (as discussed earlier) to net assets and the separate components for the last three years:

	As of June 30,		
	2009	2010	2011
Net assets – governmental activities			
Total fund balances – governmental funds	\$ 4,205,140	\$ 6,503,545	\$ 7,195,700
Capital assets, less accumulated depreciation	8,774,834	7,782,767	7,726,283
Long-term liabilities	(8,591,176)	(8,428,869)	(8,221,342)
Internal Service Fund balance	(571,875)	(714,374)	(610,530)
Other items	11,414	8,477	5,624
Total net assets – governmental activities	<u>\$ 3,828,337</u>	<u>\$ 5,151,546</u>	<u>\$ 6,095,735</u>
Net assets			
Invested in capital assets, net of related debt	\$ 540,811	\$ 537,304	\$ 561,192
Restricted	690,828	1,511,269	1,604,790
Unrestricted	<u>2,596,698</u>	<u>3,102,973</u>	<u>3,929,753</u>
Total net assets	<u>\$ 3,828,337</u>	<u>\$ 5,151,546</u>	<u>\$ 6,095,735</u>

Some of the District's fund balances translate into restricted net assets by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g. Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net assets category consists mainly of the General Fund unrestricted fund balances, offset against non-capital long-term obligations such as vacation or severance payable. Consequently, many Minnesota school districts have accumulated deficits in this component of net assets.

Total net assets increased \$944,189 during fiscal 2011. Most of this increase was due to the increase in the General Fund balance of \$707,418 in the current year.

## ACCOUNTING AND AUDITING UPDATES

### **GASB STATEMENT NO. 60 – ACCOUNTING AND FINANCIAL REPORTING FOR SERVICE CONCESSION ARRANGEMENTS**

This statement provides accounting and financial reporting guidance for governments that participate as either a transferor or an operator in a service concession arrangement (SCA). SCAs are arrangements whereby a government transfers the rights to operate one of its capital assets to a third party operator (either a private party or another government) for consideration, with the operator then being compensated from the fees or charges collected in connection with the operation of the asset. To qualify as an SCA, an arrangement must meet all of the following criteria: 1) the transferor must convey to the operator both the right and the obligation to use one of its capital assets to provide services to the public; 2) the operator must provide significant consideration to the transferor; 3) the operator must be compensated from the fees or charges it collects from third parties; 4) the transferor must have the ability to either determine, modify, or approve what services are to be provided to whom at what price; and 5) the transferor must retain a significant residual interest in the service utility of the asset. This statement provides guidance to governments that are party to an SCA for reporting the assets, obligations, and flow of revenues that result from the arrangement; along with the required financial statement disclosures. The requirements of this statement must be implemented for periods beginning after December 15, 2011, with earlier implementation encouraged.

### **GASB STATEMENT NO. 61 – THE FINANCIAL REPORTING ENTITY: OMNIBUS**

This statement amends the current guidance in GASB Statement No. 14, “The Financial Reporting Entity,” for identifying and presenting component units. This statement changes the fiscal dependency criterion for determining component units. Potential component units that meet the fiscal dependency criterion for inclusion in the financial reporting entity under existing guidance will only be included if there is also “financial interdependency” (an ongoing relationship of potential financial benefit or burden) with the primary government. This statement also clarifies the types of relationships that are considered to meet the “misleading to exclude” criterion for inclusion as a component unit; changes the criteria for blending component units; gives direction for the determination and disclosure of major component units; and adds a requirement to report an explicit, measurable equity interest in a discretely presented component unit in a statement of position prepared using the economic resources measurement focus. The requirements of this statement must be implemented for periods beginning after June 15, 2012, with earlier implementation encouraged.

### **GASB STATEMENT NO. 63 – FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources; which are defined as the consumption or acquisition of net assets, respectively, applicable to a future reporting period. The statement amends certain reporting requirements in GASB Statement No. 34 and related pronouncements, providing a format for a new Statement of Net Position, which reports deferred outflows of resources and deferred inflows of resources separately from assets and liabilities. It also renames the residual of assets, deferred outflows of resources, liabilities, and deferred inflows of resources as net position, rather than net assets. The requirements of this statement must be implemented for periods beginning after December 15, 2011, with earlier implementation encouraged.

## **GASB PENSION EXPOSURE DRAFTS**

In June, 2011 GASB issued two exposure drafts on accounting and reporting for pensions, one for the reporting of pension benefits within the financial statements of participating employers and the other for pension plan financial reporting. These two exposure drafts are intended to update or replace the current guidance for pension reporting in GASB Statement Nos. 25 and 27.

The exposure drafts propose a variety of changes in financial statement presentation, measurement, and required disclosures relating to pension benefits. Included are proposed major changes in how employers that participate in cost-sharing defined benefit pension plans, such as TRA and PERA, account for pension benefit expenses and liabilities. Currently, employers participating in such plans recognize pension expenses and liabilities only to the extent of their contractually required annual contributions to the plan. The exposure draft proposes that those employers recognize their proportionate share of the collective net pension liability and collective pension expense for all participating employers. If adopted, this guidance could have a significant impact on the financial statements of the participating employers, as participants in plans with a substantial unfunded liability would be required to report their proportionate share of the unfunded liability in their government-wide financial statements.

The proposed effective dates for both exposure drafts are for periods beginning after June 15, 2012, if certain conditions are met, otherwise for periods beginning after June 30, 2013.

## **FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT (TRANSPARENCY ACT)**

Effective October 1, 2010, the Transparency Act requires federal award recipients to report specific data, including compensation data in certain circumstances, related to subawards. One of the key requirements of the Transparency Act was the creation of a single, searchable website that provides the public with greater access to information on federal spending. The Transparency Act requires recipients to report first-tier subaward and executive compensation data for new federal grants as of October 1, 2010, if the initial award is equal to or over \$25,000. Pass-through entities (primary recipients) must report subaward data through the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward obligation is made. For a more detailed discussion of the Transparency Act see Part 3, Section L of the 2011 Office of Management and Budget (OMB) A-133 Compliance Supplement available at [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb). The OMB has issued several documents that provide guidance on the Transparency Act, including *Open Government Directive – Federal Spending Transparency* and *Subaward and Compensation Data Reporting* available at [www.whitehouse.gov/omb/open](http://www.whitehouse.gov/omb/open).



## LEGISLATIVE SUMMARY

The following is a brief summary of recent legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the MDE.

**Basic General Education Revenue** – The per pupil basic general education formula allowance for fiscal year (FY) 2011 was \$5,124. The allowance will increase \$50 each of the next two years, to \$5,174 for FY 2012, and \$5,224 for FY 2013.

**Small Schools Revenue** – Small schools revenue will be added as a new component of general education revenue beginning in FY 2013. School districts with less than 1,000 adjusted marginal cost pupil units (AMCPU) will qualify for an additional revenue allowance per AMCPU of: \$522.40 times (1,000 – AMCPU)/1,000. Charter schools are not eligible for this aid.

**Compensatory Pilot Project Formula Aid** – The 20 largest school districts in the state in terms of adjusted pupil units may be eligible to this one-time aid for FY 2013. To be eligible, the District's compensatory revenue per compensatory pupil unit (free + 1/2 of reduced price lunch count) must be less than \$1,400. The aid, which can only be used for basic skills purposes, will equal the amount needed to bring the District's compensatory aid up to \$1,400 per compensatory pupil unit.

**Training and Experience Revenue** – Training and experience revenue will be eliminated as a component of general education revenue effective FY 2012.

**State Aid Payment Deferral** – State aids normally paid on a 90–10 schedule were changed to a 73–27 schedule for FY 2010 and 70–30 for FY 2011. Beginning in FY 2012, these aids will be paid on a 60–40 payment schedule, which will also apply to charter schools. An exception was allowed for charter schools in which at least 90 percent of the enrollment receives special education services, accelerating regular special education aid payments only to a 90–10 payment schedule.

**Early Graduation Programs** – Two programs were created that provide students that graduate early with awards between \$2,500 and \$7,500, depending on how many semesters early they graduate. Students qualifying for the Early Graduation Achievement Scholarship Program receive a scholarship award that may be used at any accredited higher education institution, and students qualifying for the Early Graduation Military Service Award Program receive a cash award equivalent to the scholarship program awards. Beginning in FY 2012, school districts and charter schools will no longer generate pupil units and the associated funding for early graduates participating in these programs.

**Temporary Suspension of Reserved Revenue for Staff Development** – The temporary suspension of the requirement for school districts and charter schools to reserve 2 percent of their basic general education revenue for staff development, initially suspended for FY 2010 and FY 2011, was extended to include FY 2012 and FY 2013.

**Licensed School Support Staff** – The requirement for school districts to reserve \$3 per pupil of the safe schools levy proceeds for licensed school support staff, as well the maintenance of effort requirement relating to school counselors and other licensed support staff, have been eliminated.

**Uses of Operating Capital Revenue** – The use of operating capital revenue has been expanded to include costs associated with leasing vehicles, and costs directly associated with closing a school facility, including moving and storage costs.

**Endowment/Permanent School Fund Payments** – Effective March 1, 2012, the distribution of endowment/permanent school fund revenue will be based on the adjusted average daily membership (ADM) pupils served by each school district rather than resident ADM pupils. Also, charter schools will qualify to receive endowment/permanent school fund payments beginning that same date.

**Teacher Contract Deadline** – The January 15 deadline for settling teacher contracts and the related penalty have been eliminated.

**Literacy Incentive Aid** – For FY 2013 and later, a new literacy incentive aid is available to school districts and charter schools. Only school sites that enroll students in Grades 3 and 4, with reading MCA test results from the prior year, generate revenue. There is no requirement for the funds to be spent at the school generating the revenue. The aid may be used for any General Fund purpose.

Literacy incentive aid is the sum of two components, proficiency aid and growth aid. Proficiency aid equals \$85 times the school's enrollment from October 1 of the previous year times the school's proficiency index (the percent of third graders meeting or exceeding proficiency on the reading Minnesota Comprehensive Assessments (MCA) test, averaged across the previous three test administrations). Growth aid equals \$85 times the school's enrollment on the previous October 1 times the percentage of fourth graders making medium or high growth on the reading MCA, averaged across the previous three test administrations.

**Integration Aid** – The current integration rule remains in effect with no sunset. However, the current integration aid funding formula remains in place only for FY 2012 and FY 2013. The integration revenue statute is repealed in FY 2014, and the base appropriation for a new program is established for FY 2014 and FY 2015. The Commissioner of Education will convene a 12-member Integration Revenue Replacement Advisory Task Force to develop recommendations for repurposing integration revenue funds to create and sustain opportunities for students to achieve improved educational outcomes.

**Property Tax Revenue Recognition Change (Tax Shift)** – Beginning in FY 2011, 48.6 percent of property taxes levied for the next school year will be recognized as revenue in the current year, and state aids will be reduced by that same amount. The shift calculation was changed to use gross levies before state tax credits are deducted. Shifted amounts will be repaid (decreased) when the state attains certain specific financial goals, and the aid payment schedule is restored to 90–10.

**Homestead Market Value Credit** – The homestead market value credit, which reduces the property taxes spread to homestead property based on net tax capacity and replaces it with state aid, is repealed effective for taxes payable in 2012. To help neutralized the impact of the credit repeal on homeowners, a portion of each homestead taxpayer's market value will be excluded in determining the property's net tax capacity for determining net tax capacity-based taxes. The exclusion starts at 40 percent of the value for homes valued up to \$76,000, and is gradually reduced as the home value increases, phasing out completely for homes valued over \$413,800.

**Career and Technical Levy** – Beginning with taxes payable in 2012, this levy is increased to the greater of \$80 times the District's ADM in Grades 9 through 12, or 35 percent of approved expenditures (instead of the lesser of \$80 times the District's ADM in Grades 10 through 12, or 25 percent of approved expenditures).

**Fund Transfers** – For FY 2012 and FY 2013 only, school districts are authorized to transfer any money from one fund or account to another, excluding transfers from the food service or community service funds, as long as the transfer does not increase state aid obligations or increase local property taxes. School boards may only approve such transfers after they have adopted a resolution stating that the transfer will not diminish instructional opportunities for students.

**PERA and TRA Rates** – Contribution rates for employers and employees of the PERA Coordinated Plan increase by 0.25 percent effective January 1, 2011. Contribution rates for employers and employees for both the TRA Basic and Coordinated Plans increase by 0.5 percent each year through FY 2015. There is no additional aid to help fund these increases.

**Minnesota Department of Education Budget** – The MDE budget has been reduced by 5.0 percent annually for FY 2012 and FY 2013.