

**Advisory Committee on Financial Management, Accounting and Reporting Committee
March 21, 2011 Meeting Minutes**

The Advisory Committee met on March 21, 2011. Members in attendance: Sue Nelson, Sarah Slaby, Tracey Fiereck, Dianna Groskretz, Jeff Yeager, Cindy Longhenry, Lori Mohs, Nancy Schulzetenberg, Janet Halonen, Stella Johnson, Angie Manuel, David Peterson. MDE Staff: Audrey Bomstad, Lisa DeRemee, Sarah Miller, Greg Hein, Jonathan Lord and Carol Hokenson. Others: Kim Hillberg, CPA, LarsonAllen

The meeting was called to order by Chair Angie Manuel at 12:40 p.m.

Angie Manuel introduced and welcomed new and returning Advisory Committee members. The following is a list of those members:

Name	Organization	Term Expires December:
Stella Johnson	Rosemount-Apple Valley Schools	2013
David Peterson	St. Paul Public Schools	2011
Janet Halonen	Esko Public Schools	2013
Angie Manuel	Big Lake Public Schools	2011
Sarah Slaby	Winona Public Schools	2013
Sue Nelson	Fairmont Public Schools	2012
Cindy Longhenry	Hutchinson Public Schools	2012
Tracey Fiereck	cmERDC St. Cloud	2012
Dianna Groskretz	Region V Computer Services Mankato	2012
Jeffery Yeager	Region II Duluth	2013
Lori Mohs	Skyward, Inc. Waite Park	2011
Nancy Schulzetenberg	KDV St. Cloud	2011
Tiffany Rodning	MSBA St. Peter	2012
Greg Hierlinger	Office of the State Auditor	2013

The committee reviewed and unanimously approved the minutes from the November 17, 2010 meeting.

Lisa DeRemee gave an update on the MDE Agency and reviewed the current Advisory Committee mission statement and committee purpose to advise the department on matters of school accounting, reporting, budgeting and financial management. The meeting calendar for 2011 was also reviewed and discussed. Audrey Bomstad suggested early establishment of the 2011 meeting calendar with ongoing adjustments as necessary.

Lisa DeRemee discussed and the committee reviewed the current reorganization chart of the MDE Agency and Program Finance. The current structure may be temporary or permanent and is still in the MDE development stages.

With the Legislature still in session, there are proposed MDE staffing decisions/cuts under review on the House and Senate dockets.

Stella Johnson inquired about the role of the MDE audit team in Program Finance. Audrey Bomstad reported that the team was currently under restructure with its main emphasis and focus on school compliance with program criteria statutory guidelines.

The meeting continued with a review of final FY 2011 UFARS changes. Lisa DeRemee reported that the financial management team had been functioning over the last few months with a reduced staff. All UFARS changes had been compiled with a target date of grid release for March 4, 2011. The UFARS grid and manual changes are still in progress and contain items as Chapter 10 revised definitions, new finance, object and balance sheet account updates. The new target date for the UFARS Chapter 10 grid is by March 24, 2011 with the UFARS Manual release by mid-April. Other UFARS questions would be addressed and accommodated in the School Business Bulletin.

The committee reviewed and discussed the budgeting and accounting aspects of the Federal Education Jobs Funds.

The federal program's intent was to stimulate the economy and to provide one-time federal money to save or create education jobs for the 2010-11 school year. Estimated allocations were based on the FY 2011 adjusted Average Daily Membership (ADM) pupil units, General Education Aid and Special Education and Excess Costs funding formula. In order to prevent overpayments, MDE limited the amounts reimbursed during FY 2011 to 90% of each LEA's estimated allocation. Final allocations will be calculated on actual ADMs and General and Special Education dollars and will be available to schools in February or March 2012. Any Federal Education Jobs Funds clarification would also be published in the upcoming School Business Bulletin.

David Peterson reported on the GASB 54 Sub-Committee's discussions on implementation and application of GASB Statement 54. The following questions were addressed and reviewed by the sub-committee:

1. In Fund 06, districts may have bond funds (which would be restricted), but also transfers from the general fund of revenues that the board has committed for capital projects, including deferred maintenance revenue, health and safety, and (until committed by the board) unassigned general fund balance. Can year-end balances of funds (other than bond funds) be transferred back to the general fund?
2.
 - A. *Amounts excess to a capital project that were* transferred from the general fund may be transferred back prior to June 30th of the transfer year, unless the amount transferred exceeds the amount of the current year's transfers in to Fund 06. Minnesota Statutes, section 123B.79, Subd. 4 states that any transfer for a period in excess of one year shall be deemed to be a permanent transfer.
 - B. Bond funds are restricted, must be recorded in Fund 06, and may not be transferred to the General Fund.

The sub-committee agreed that the Fund 06 issue had no affect on GASB 54 but that it would be advantageous to note in the UFARS manual and a School Business Bulletin article.

3. If a district has used GNL 418 in the past to record funds but the board were to instead assign the funds in FY 11 (General Ledger (GNL 462)), would this change affect the district's SOD calculation?
 - A. The SOD calculation is unchanged by GASB 54. All fund balances, except for those in restricted/reserved accounts specified by state statute, will be included in calculating total fund balance for SOD.

The sub-committee discussed Statutory Operating Debt (SOD) and that it would be calculated by using the yearly activity and ending balances of the following six accounts in the General Fund (01) only: 418 Committed for Separation/Retirement Benefits, 460 Nonspendable Fund Balance, 461 Committed Fund Balance, 462 Assigned Fund Balance, 464 Restricted Fund Balance and 422 Unassigned Fund Balance. The Restricted/Reserved Fund Balances would not be included in the SOD calculation.

4. ***For sub-committee discussion:*** Prior to GASB 54, select statutory reserve accounts (now recast as restricted/reserved) could report a deficit fund balance; for example, Health and Safety in Fund 01, and the ECFE, School Readiness and Community Education reserves in Fund 04. How should deficits in these programs be reported now, to GNL 463-unassigned? If reported in GNL 463, how will MDE track the "true" position of a particular restricted/reserve account's fund balance at year end for the purpose of calculating future levy adjustments (Health and Safety) or revenue adjustments (ECFE, School Readiness, Community Ed excess fund balance adjustments)? In the case where the ECFE program with a FY 11 beginning fund balance of \$0 or less runs a deficit in FY 11, should the district report an ECFE restricted/reserve account fund balance of \$0, and record the ECFE program's year-end deficit in Fund 04, GNL 463-unassigned?

The consensus of the subcommittee was that Community Education restricted/reserve accounts' deficits not be reported in UFARS as Unassigned Fund Balances to allow the statutory formula and fund balance calculations to work correctly. These accounts would instead be classified as Restricted/Reserved Fund Balances which are allowed to have negative balances; any deficits in these accounts would be interpreted by Auditors, MDE and UFARS as unassigned.

5. ***For sub-committee discussion:*** GASB 54 allows special revenue funds to be committed and assigned. How does GASB 54 affect the reporting of funds that are statutorily restricted/reserved in Fund 04? Except for non-public pupil aids and early childhood screening aids, all funds for community education programs, ECFE, school readiness, and ABE are statutorily restricted/reserved. Are all aids, levies, and other revenue for community education/ECFE/school readiness/ABE programs to be reported in their respective restricted/reserved accounts? What revenues, if any, recorded in Fund 04 could it be argued districts should be able to commit or assign?

The subcommittee confirmed its earlier conclusion that all activity school districts report in Fund 04 is either restricted or restricted/reserved; no Fund 04 resources are available to commit or assign

6. ***For sub-committee discussion:*** GNL 418 , formerly designated and now Committed for Separation/Retirement Benefits, has historically been permitted in Fund 04, but was rarely if ever used by districts in Fund 04 prior to the implementation of GASB 45. The majority of districts still do not use this account in Fund 04. Does the definition of GNL 418 need to be more clearly articulated when community education, ECFE, school readiness, or ABE revenue is committed by the board for separation/retirement benefits?

There was a consensus that GNL 418 not be permitted in these funds, as GASB 54 does not allow restricted funds to be committed. Districts could either commit funds in Fund 01 and make chargebacks for severance/retirement costs incurred by Funds 02 and/or 04; or they could budget internally for these costs within their restricted/reserved fund balance. MDE staff will research which schools are currently using GNL 418 in Fund 02 and Fund 04 and the source of those funds.

7. ***For subcommittee discussion:*** Under current statutes, community education revenue is adjusted for excess fund balance calculated by combining the community education reserve (GNL 431) and community services fund unreserved (pre-GASB 54, GNL 422) fund balances. Under GASB 54 there can be no unrestricted/unreserved fund balance in Fund 04; so is only the restricted/reserved account (GNL 431) included in the calculation of the three-year average fund balance? Or should any committed (GNL 464), assigned (GNL 462), or negative unassigned (GNL 463) fund balance also be included in this calculation?

As discussed previously, the sub-committee agreed that for balance sheet reporting, Fund 02 and Fund 04 funds should all be classified as either restricted or restricted/reserved; no funds are available to commit or assign. Any negative balances in Fund 04 restricted/reserve accounts would be reported in these accounts in UFARS for calculation of average fund balances, but reported on the financial statements as unassigned.

8. ***For subcommittee discussion:*** What impact does GASB 54 have, if any, on reporting for the Trust (08), Agency (Fund 09), and Post-Employment Benefits Irrevocable Trust Fund (45)? Should the Post-Employment Benefits Debt Service Fund (47) be recast as restricted?

It was suggested to revise the GNL 422 Unassigned Fund Balance description into two sections addressing: 1) its use in Fund 01 to record unassigned fund balance; 2) its use funds to record net assets in Funds 08, 20, 25 and 45.

MDE staff Jonathan Lord and Carol Hokenson presented an overview of modifications to SERVS Financial, to change draws from the Object Code by Finance and Course Dimensions to only the Finance Dimension along with the required Course Codes. It was reported that drawing at the Object Code level had been a very time consuming process for school staff. This proposed new change would reduce the resource commitment of the districts and also reduce the number of errors and corrections in regards to previous Object Code based draws.

The Project Scope discussion included the following information:

- A. Revised SERVS Financial Draw Screen for all budgets and all budget years (2010, 2011, 2012, etc.).
- Replace draw-by-budget line item with draw-from-total budgeted amount. Only enter service period and draw amount.
 - Draws are validated against the total budgeted & expended amounts for the budget, not against a specific budget line item (or summary of budget line items).
 - When carry forward is available, draws will be at the Finance Code level and selection of the oldest funding stream first (“first in, first out” – by course code).
 - If there is more than one funding stream that is oldest, users will select the funds transfer first.
 - SERVS End of Year (EOY) budgets must be reconciled to audited UFARS expenditures by Finance, Object and Course Code levels. This should be an ongoing monitoring process throughout the fiscal year budget process.

Updates on the SERVS project proposal would be covered in an MDE SERVS Web-x session as well as an article in School Business Bulletin.

Other discussion items included election of a new MDE Advisory Committee Vice Chair. Tracey Fiereck volunteered for the position and the committee unanimously approved her as the 2011 Vice Chair and as the 2012 Chair.

Personal Activity Reports (PARs) were briefly discussed. The question, “Are PAR reports required?” was posed to the committee. Audrey Bomstad stated that PAR reports were necessary and required for monitoring Special Education staff in their performance of their daily tasks which may also include General Education hours. The PAR reports were also necessary for the justification of Maintenance of Effort (MOE). Audrey stated that MDE would follow up with special education staff to clarify.

Audrey Bomstad reported and suggested the addition of an Enterprise Fund to the existing UFARS funds. She also mentioned that the previous UFARS changes that were approved by the Advisory Committee had not been sent to the Commissioner for final approval because more clarification was necessary on what direction the SERVS and UFARS systems would be taking in the future. These changes outlined the addition of four-digit object codes in the UFARS coding system. Other UFARS changes matters discussed included Certificates of Participation (COPs) and the clarification of the implicit rate subsidy calculation.

The committee discussed the call for the next meeting’s agenda items. Members would e-mail Lisa DeRemee their proposed agenda items. Lisa DeRemee will forward a proposed calendar to members before the next meeting.

The meeting was adjourned at 3:15 p.m.