



Advisory Committee on Financial Management, Accounting and Reporting

Minutes, May 18, 2011

Members Attending: Stella Johnson, Janet Halonen, Angie Manuel, Sarah Slaby, Cindy Longhenry, Tracey Fiereck, Dianna Groskreutz, Jeff Yeager, Lori Mohs, Nancy Schulzetenberg, Greg Hierlinger.

MDE Staff Attending: Lisa DeRemee, Audrey Bomstad, Greg Hein, David Day, Patti Scott.

Members Absent: Tiffany Rodning, David Peterson, Sue Nelson.

Chair Angie Manuel called the meeting to order at 12:05 P.M.

Approval of March 21, 2011, Meeting Minutes. Tracey Fiereck moved to approve the minutes; Dianna Groskreutz seconded the motion. The committee approved the minutes on a voice vote.

Introduction of New MDE staff. Lisa DeRemee introduced David Day and Patti Scott. David has assumed duties of the position previously held by Mary Weigel and will have primary responsibility for audit submission and review, as well as Financial Profiles reports. Prior to MDE, he worked in the Office of the Chancellor for the MnSCU System. Patti has assumed duties of the position previously held by Karen Dykoski and will have primary responsibility for maintaining the UFARS grid and account codes. Patti has worked at MDE for five years, first in Food Service and then in MDE's Agency Finance Division.

GASB 54: Discussion of Restrictions and/or Use of Committed and Assigned Funds. The committee discussed the impact of new fund balance classifications on budgeting. Board policy on the use of funds determines the order of use for committed, assigned, and unassigned fund balance and also dictates budget decisions. Reversing a board decision to commit funds requires a like board action.

The committee also discussed whether districts could record prepaid expenditures in nonspendable fund balance (Balance Sheet Account 460) in the Community Services Fund. Some districts might do this as a strategy to avoid revenue adjustment for excess fund balance. Lisa DeRemee confirmed districts may report nonspendable fund balance in Fund 04, and that Balance Sheet Account 460 will not be included in excess fund balance calculations. MDE will monitor this account's activity in Fund 04 and will also review whether changes in the fund balance limit statutes are required to accommodate changes in fund balance reporting under GASB 54. Balance Sheet Account 418, which had not previously been included in excess fund balance calculations, is no longer permitted in Fund 04 effective FY 2011.

UFARS Coding: Severance Expenditures and Federal Early Retiree Reinsurance Revenue. MDE asked for the committee's input on the recording of direct contributions (not an unused sick leave balance transfer) to retirees' health savings accounts under an early retirement incentive program. Two UFARS object codes could be appropriate, object code, 191-Severance or 251 Tax Advantage Employer-Sponsored Health Arrangements. A related question is whether the definition of object 191 should be narrowed to exclude separation payments that are beyond the definition of severance pay in Minnesota Statutes Chapter 465, which is referenced in the UFARS definition.

Stella Johnson commented that District 196 uses object 191 to code severance payments for unused sick leave balances, which are made as direct contributions to an employee HSA account. There was discussion whether such contributions are compensation; compensation costs are recorded in the 100 series, while payments to a third-party on behalf of an employee would be recorded as benefits. Nancy Schulzetenberg stated that classification as compensation does not depend upon the form of payment. The tax treatment of compensation and benefits varies. Discussion revealed a variation of practices in recording this activity. The committee referred the question back to MDE for further research.

UFARS Coding: Early Retirement Reinsurance Program Revenue. MDE asked for the committee's comment on the use of Finance code 599-Miscellaneous Federal Direct Revenue and Source 599 – Miscellaneous Federal Direct Aid to record federal reimbursements received through the federal Early Retiree Reinsurance program. ERRP reimburses participating employers—including many Minnesota school districts—for qualified health benefit claims beginning on or after June 1, 2010, through December 31, 2013. In discussion, it appears that practice varies among districts and regions. Some use Finance 599 with Source 500; others use Finance 000 and Source 599; or Finance 599 and Source 400. MDE will review the rationale for reinstating Source 599 and send out clarification to districts through the business manager listserv.

Federal Jobs Funds: Estimating Receivables, Budgeting for FY 2012

Jobs funds were awarded in 2010 (state FY 2011) and must be obligated by September 30, 2012. Minnesota has chosen to allocate based upon FY 2011 state general and special education entitlements; current allocations are estimates based upon data as of September 2010. SERVS Financial Jobs funds allocations are set at 90 percent of Jobs Fund preliminary allocations, however, districts may budget and expend in FY 2011 up to the amount of their estimated 100 percent allocation. As of Monday, May 16th:

130 Districts had drawn 100 percent in FY 2011; 91 Districts had drawn \$0; 1 District hadn't accepted its award; Remainder had drawn less than 100 percent.

To assist districts in budgeting and estimating receivables, MDE will update estimates of Jobs allocations. The tentative plan is to post updates based on June 30th revision to FY 2011 General Education aid entitlements (for August 30th final payments) and again after October 30th. Spreadsheets comparing initial and revised estimated allocations will be posted on the MDE Website. Districts can budget and estimate FY 2011 receivables based upon 100 percent of the revised estimated Jobs allocations.

Districts' allocations in SERVS Financial will not be updated on SERVS until after final FY 2011 General Education and Special Education revenue is calculated—this could be as late as May 2012. At that time MDE will calculate districts' final Jobs allocations and update allocations in SERVS Financial to 100 percent of final amounts.

Once the final allocations are loaded in SERVS, any change to the district's final award amount will require a change in the amount allocated by the district to one or more of the following fiscal years: FY(s) 2011, 2012, and/or 2013. In addition, it will be necessary for districts to revise their budgets accordingly. As always, budget changes may be subject to the approval process.

To estimate FY 2011 receivables, subtract the amount drawn on SERVS for FY 2011 from the amount the district has budgeted and intends to spend in FY 2011 (Finance 152, Course 000). The amount budgeted and expended should not exceed 100 percent of the estimated allocation. If the final allocation is less than the amount expended for FY 2011, districts would record a payable.

PAR Reporting for State-Funded Special Education Staff. Donna E. Nelson, Supervisor of Monitoring, and Wayne Kuklinksi, Acting Supervisor of Fiscal Compliance, presented background on MDE's directive to directors of special education requiring personnel activity reporting (PAR) for state and locally-funded special education employees, which is effective FY 2011. The requirement was based on an e-mail correspondence from the Office of Special Education Programs indicating that, while OMB Circular A-87 does not specifically address maintenance of effort, it would be prudent for an SEA or LEA to treat maintenance of effort like a matching requirement for purposes of documentation. A response from the Secretary of Education to MDE's recent request for a formal opinion may take several months or longer. Until then, semi-annual certification is required if the employee is assigned full-time to special education activities; if the assignment is split between special education and regular instruction, then PARS reporting is required at least monthly and must coincide with the pay period (pay periods can be combined). MDE has scheduled training sessions June 20 and 21 that are limited to districts with audit findings; however, additional training will be scheduled in late July. MDE will also publish guidance to address districts' questions. Nelson and Kuklinksi responded to questions from the Committee:

Districts that haven't implemented the standard are not required to re-do their entire FY 2011 payroll; if the district is monitored, MDE will issue a finding and require implementation as part of the Corrective Action Plan, but will not disallow costs. Districts monitored in FY 2011 that have begun to implement the standard would not be cited as noncompliant.

Any payroll system that generates the required reporting elements will suffice; hourly timesheets that report salary/wages by Finance and Object code and have electronic approval satisfy the requirement.

If multiple districts share staff, the fiscal host responsible for payroll is the entity responsible for documentation.

The requirement does not apply to non-special education staff paid with state and local funds released through 50 percent maintenance of effort reduction, when available. (Expenditures are documented on UFARS with Finance 000, Course 633; no MOE reduction is available in FY 2011.)

Permitted Uses of Operating Capital Revenue. MDE is aware that many districts are charging software license fees to Finance 302, Object 820. This expenditure does not appear to be a permitted expenditure under Minnesota Statutes 126C.10, Subdivision 14. Discussion: How are districts paying for software fees? The restricted grid for Finance 302 currently permits Object codes 305 and 820; however, neither appears to be appropriate for recording permitted uses of operating capital.

Paragraph 19 of the statute allows the use of operating capital “to purchase *or lease* assistive technology or equipment for instructional programs.” Paragraph 23 allows the use of operating capital “to purchase *or lease* telecommunications equipment, computers, and related equipment for integrated information management systems...” The committee discussed whether licensing fees or systems maintenance fees qualify as lease costs. Members generally agreed that that the licensing fee for access to electronic instructional media such as Rosetta Stone should be an eligible use of operating capital. There was disagreement among members whether the annual licensing fees for information management systems should be considered a systems lease cost or an operating or maintenance cost. Paragraph 24 permits “*personnel costs* directly related to the acquisition, operation, and maintenance of telecommunications systems, computers, related equipment, and network and applications software.” The committee recommended MDE do further research on this question and whether an amendment to statute is required.

UFARS Coding: Electronic Media Expenditures. MDE asked the committee for input on coding expenditures for electronic books. The committee recommended that the e-reader equipment be coded to Object 555-Technology Equipment, and the content be coded to 460-Textbooks and Workbooks.

Creation of a UFARS Enterprise Fund. Audrey Bomstad asked the committee for assistance in researching changes to UFARS to accommodate reporting of enterprise activity. Primarily, this involves service cooperatives and intermediate districts that generate fee revenue in excess of cost recovery, typically in business areas other than education; for example, telecommunications. Committee members Fiereck, Hierlinger, Schulzetenberg, and Manuel volunteered to be part of a subcommittee to be convened by Audrey. The committee recommended including a representative from one of the service cooperatives on the subcommittee as well.

There being no further business, the committee adjourned until its next meeting, August 17.