



**DISTRICTS WITH
FISCAL YEAR 2008
STATUTORY
OPERATING
DEBT**

As of June 30, 2008

**REPORT
TO THE
LEGISLATURE**

**As required by
Minnesota Statutes,
section 123B.83,
Subd. 3**

COMMISSIONER:

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January 12, 2009

**As required by
Minnesota Statutes,
section 123B.83, Subd. 3**

Upon request, this report can be made available in alternative formats.

ESTIMATED COST OF PREPARING THIS REPORT

This report provides information that the Minnesota Department of Education already collects as part of its normal business function. The cost information reported below includes the cost of analyzing the data and preparing the report document.

Special funding was not appropriated to cover the costs of preparing this report.

The estimated cost incurred by the Minnesota Department of Education during the preparation of this report is \$474.

**Report on Minnesota School Districts and Charter Schools With Excess
Net Negative Operating Fund Balances at the End of Fiscal Year (FY) 2008**

Minnesota Statutes, section 123B.83, Subd. 3, (2008) states:

If a school district does not limit its expenditures in accordance with this section, the commissioner may so notify the appropriate committees of the legislature by no later than January 1 of the year following the end of the fiscal year.

This report is notification to legislative committees based upon data compiled on statutory deadlines.

The information on traditional districts and charter schools in this report has been drawn from the Uniform Financial Accounting and Reporting Standards (UFARS) data and verified by independent auditor reports. Public schools must report their audited UFARS data for the previous fiscal year to the Minnesota Department of Education (MDE) by November 30 and an audited financial statement to MDE by December 31. (Minnesota Statutes, section 123B.77, Subd. 3).

Districts and charter schools exceed their expenditure limitations when their Net Unreserved General Unreserved Operating Fund Balance (NUGFB) at year-end (June 30) is a negative amount which exceeds 2.5% of their unreserved/undesignated operating expenditures. Units that exceed this operating debt limitation are in Statutory Operating Debt (SOD).

Fiscal Year 2008 is the eighth year that Statutory Operating Debt was calculated using the Net Unreserved General Fund Balance. The NUGFB is the sum of the Unreserved/Undesignated and Encumbrance accounts of the General Fund. Prior to Fiscal Year 2001, the SOD calculation included the Food Service and the Community Service Funds as well as the Unreserved/Undesignated in the General Fund. The statute was changed to more directly exhibit the general K-12 instructional and educational support activity of a unit. Therefore, the Food Service and Community Funds were removed as well as those reserve accounts in the General Fund that were restricted to specific functions.

One of the objectives of the Financial Management Section of MDE is to provide financial management assistance. Staff members not only monitor and work with traditional districts and charter schools in SOD in the preparation of recovery plans, but also work with those entities whose financial health is deteriorating. They work closely with units identified with declining financial health to improve their financial position. Staff members recommend best practices in business and financial management and suggest ways to avoid statutory operating debt. They also conduct training for management and school board members in financial oversight, the development of fiscal controls, and in the analysis of short and long term data sets.

Summary of Findings

The Minnesota Department of Education (MDE) received final Uniform Financial Accounting and Reporting Standards data (UFARS) from school districts and charter schools after that data had been audited by an independent certified audit firm. Minnesota Statutes, section 123B.77, Subdivision 3, requires school districts and charter schools to submit final UFARS data to MDE by November 30, and an audited financial statement (hard copy audit) to MDE by December 31.

ELOM International Charter School #4165 and Heart of the Earth Charter School #4044 failed to provide any UFARS data by January 2, 2009. Red Rock Central, Shakopee, Bellingham and Chaska failed to meet the final UFARS data load deadline and also reloaded after December 31, 2008.

The number of reporting units in SOD decreased by six from the previous year level of 24 to the current level of 18. There were 13 traditional districts and five charter schools in SOD at the conclusion of FY 2008. (**Table One**).

Three school districts and three charter schools were new to the FY 2008 SOD list. Eight school districts and four charter schools were removed from the SOD list for FY 2007. (**Table Two**)

Seven (7) units submitted their audited financial statements after the December 31, 2008, deadline. Thirty-four (34) units did not submit any audited financial statements by the statutory deadline nor by the date of this report. (**Table Three**)

The number of reporting school districts remained the same for FY 2008, while the number of reporting charter schools increased by six. There were 156 charter schools reporting in Minnesota during FY 2008. (**Table Four**)

Reporting Units in Statutory Operating Debt (SOD)

Table One contains information on the number of active reporting units (traditional school districts and charter schools) in Statutory Operating Debt. Reporting units reach this level of debt with a negative net unreserved general fund balance that exceeds 2.5% of their yearly general fund operating expenditures for the year.

There were 13 traditional independent school districts and five charter schools that had a net negative unreserved general fund balance exceeding 2.5% of Fiscal Year 2008 unreserved/undesignated general fund expenditures. That was the lowest number of traditional school districts in SOD for a decade.

Three of the 13 traditional school districts and three of the five charter schools were new to the SOD list for Fiscal Year 2008.

Table One: Traditional Districts and Charter Schools with a Negative Net Unreserved General Fund Balance Exceeding 2.5% of Yearly General Fund Operating Expenditures for FY 2008

District Information			Unreserved	General	2008	Final	Hard	First
No.	Type	Name	Gen. Fund	Fund	SOD	UFARS	Audit	Year
			Balance	Expenditures	Calc	Rec'd	Rec'd	SOD
93	1	Carlton	-745,314	5,277,335	-14.12%	X	NO	2006
113	1	Walker-Hackensack-Akeley	-723,136	7,592,624	-9.52%	X	X	2007
286	1	Brooklyn Center	-2,237,903	15,639,861	-14.62%	X	X	2002
371	1	Bellingham	-273,732	1,011,130	-27.07%	NO	NO	2002
458	1	Truman	-486,586	2,863,064	-17.00%	X	X	2006
465	1	Litchfield	-652,585	13,733,982	-4.75%	X	X	2008
487	1	Upsala	-187,540	2,709,144	-6.92%	X	X	2006
544	1	Fergus Falls	-916,078	19,627,098	-4.67%	X	X	2007
738	1	Holdingsford	-220,049	7,095,393	-3.10%	X	X	2005
743	1	Sauk Centre	-306,525	8,389,487	-3.65%	X	X	2006
2215	1	Norman County East	-342,969	3,225,992	-10.63%	X	X	2007
2134	1	United South Central	-233,357	6,965,722	-3.35%	X	NO	2008
2887	1	McLeod West	-573,348	3,370,239	-17.01%	X	X	2008
Charter School Information								
4025	7	Cyber Village Academy	-29,014	1,042,009	-2.78%	X	X	2006
4031	7	Jennings Experiential High School	-72,348	794,018	-9.11%	X	X	2008
4087	7	Sage Academy	-68,991	1,043,876	-6.61%	X	X	2008
4131	7	Lighthouse Academy	-66,602	2,139,122	-3.11%	X	X	2007
4154	7	Recovery School of Southern MN	-38,840	508,972	-6.92%	X	X	2008

Key on Types

Type 1 = Independent School District

Type 2 = Common School District

Type 7 = Charter School

Some of the units that were in SOD in FY 2007 and remained on the list in FY 2008 went deeper into SOD. Those units were Carlton, Walker-Hackensack-Akeley, and Norman County East. Bellingham will be reloading and will show a greater debt. All charter schools in SOD in FY 2007 either removed the condition or made progress.

Reporting Units Removing SOD

Table Two contains information on the number and names of traditional, common school districts and charter schools that removed SOD of June 30, 2008.

Seven traditional districts, one common school and four active charter schools removed their SOD condition as of June 30, 2008. No school was closed as of this report date.

Of the eight districts and four charter schools that removed their statutory operating debt at the end of FY 2008, Nine (9) districts and schools recorded a positive Net Unreserved General Fund Balance in the same year, including Red Wing, Grand Meadow, Prinsburg, Minnewaska, A.C.G.C., East Central, Watershed, Sobriety High and Main Street for the Performing Arts.

**Table Two: Traditional Districts and Charter Schools
Out of Statutory Operating Debt as of June 30, 2008**

District		6/30/2007		6/30/2008	
Number and Type	Name	Net Unreserved General Fund Balance	Percent Deficit	Net Unreserved General Fund Balance	Percent Balance
256-1	Red Wing	-794,799	-3.40%	201,307	0.86%
277-1	Westonka	-1,099,508	-5.41%	-335,881	-1.71%
316-1	Greenway	-738,142	-7.66%	-80,931	-0.79%
495-1	Grand Meadow	-167,780	-4.64%	17,305	0.51%
815-2	Prinsburg	-16,267	-6.35%	49,888	18.67%
2149-1	Minnewaska	-425,632	-3.84%	118,221	1.02%
2396-1	A.C.G.C.	-390,914	-5.86%	45,900	0.68%
2580-1	East Central	-638,814	-9.78%	164,056	2.76%
Charter School					
4092-7	Watershed	-136,867	-13.35%	13,317	1.46%
4100-7	Great Expectations	-18,120	-3.02%	-10,831	-2.18%
4109-7	Sobriety High	-105,082	-4.82%	120,852	5.74%
4110-7	Main Street for the Performing Arts	-56,237	-2.59%	18,468	0.84%

Of the reporting units that removed the condition of SOD at the end of FY 2008, Red Wing, Westonka, Grand Meadow, Minnewaska and Great Expectations accomplished that task in one year.

Units Not Reporting Audited Financial Statements

Table Three contains information on the reporting units that did not comply with the statutory deadline to report audited financial statements by December 31, 2009 (postmark date). Some of the units also failed to submit financial statements by the date of this report.

Table Three: Districts and Charter Schools Not Submitting Audited Financial Statements

A. Financial Statements after the Deadline

206 Alexandria	283 St. Louis Park	484 Pierz
721 New Prague	885 St. Michael-Albertville	912 Milaca

B. Financial Statements not Received as of Report Date.

1 Minneapolis	93 Carlton	112 Chaska
115 Cass Lake-Bena	371 Bellingham	635 Milroy
866 ESV Region 4	868 ESV Region	876 Annandale
923 Region 7	925 ESV Region 7	935 Fergus Falls Area Sp. Ed.
991 Region 6 & 8	2134 United South Central	2167 Lakeview
2886 Glenville-Emmons	4004 Cedar Riverside	4044 Heart of the Earth
4089 New City School	4114 Prestige Academy	4122 Eagle Ridge
4126 Prairie Seeds	4138 Milroy Community	4166 ERATS
4168 Glacial Hills	4174 Pine Grove Leader	6003 E. Central Minn.
6027 Minnesota Valley Ed.	6048 Wasioja Ed. Tech.	6067 E. Metro Integration
6072 Valley Crossing Coop	6076 Northland Educ.	6383 Benton-Stearns Ed.

Reporting Units with Negative Balances and SOD

Since the SOD calculation was changed to include only Fund 1 expenditures and fund balances, reporting the number of reporting units having a net negative fund balance across Funds 1, 2 and 4 has been discontinued. The new calculation became effective at the conclusion of FY 2001. **Table Four** contains data on the number of reporting units and their fiscal condition.

The lowest number of reporting units (school districts and charter schools) over this period of time was 374 in FY 1997. The largest number of units was 496 units in FY 2008. The increase was due to the opening of new charter schools.

The number of units with Net Negative Unappropriated Operating Balances across the operating funds of 1, 2 and 4 ranged from a low of 27 in FY 1996 to a high of 87 in FY 1993. The number of active entities with a Net Negative Unreserved General Fund Balance decreased by eight (8) from FY 2007 to FY 2008 (44 to 36). Of the 18 units with a negative fund balance and not in SOD, 50% of those units have a negative fund balance that is less than 1%

The number of active units with SOD was at a low of 15 in FY 1998. The highest number of units was 59 in FY 1994. The number of school districts in SOD decreased by five for FY 2008. The number of charter schools decreased by one.

**Table Four: Districts & Charter Schools – Fiscal Years 1990 through 2008
Negative Net Unappropriated Operating Debt and Statutory Operating Debt**

Category	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
School Districts									349	347	346	345	343	343	343	343	343	340	340
Charter Schools									29	40	56	68	82	87	112	134	139	149	156
Total	436	430	425	413	401	395	378	374	378	387	402	416	411	431	455	477	482	489	496
Net Negative Unappropriated Operating Fund Balance (1,2,4)	71	79	82	87	68	33	27	29	33	52	56	///	///	///	///	///	///		///
Net Negative Unreserved General Fund Balance	New SOD Calc										71	69	55	40	32	31	36	44	36
Active Units in Statutory Operating Debt	52	47	48	54	59	29	17	19	15	31	33	45	40	25	25	24	22	24	18