



**DISTRICTS WITH
FISCAL YEAR 2009
STATUTORY
OPERATING
DEBT**

As of June 30, 2009

**REPORT
TO THE
LEGISLATURE**

**As required by
Minnesota Statutes
Section 123B.83,
Subdivision 3**

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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 of 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) 2009

Minnesota Statutes, section 123B.83, Subd. 3, (2009) 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 February 15 of the year following the end of that 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 percent of their unreserved/undesignated operating expenditures. Units that exceed this operating debt limitation are in Statutory Operating Debt (SOD).

Fiscal Year 2009 is the ninth 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. 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.

The number of reporting units in SOD decreased from the previous year level of 17 to the current level of 11. There were five traditional districts and six charter schools in SOD at the conclusion of FY 2009. **(Table One)**

Three charter schools were new to the FY 2009 SOD list, while no new traditional school districts were added in FY 2009. Seven school districts and two charter schools were removed from the SOD list for FY 2009. Bellingham was removed because of consolidation. **(Table Two)**

Two charter schools did not submit audited financial statements by the date of this report. **(Table Three)**

The number of reporting school districts remained the same (340) for FY 2009, while the number of reporting charter schools increased by one (157). **(Table Four)**

Active 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 percent of their yearly general fund operating expenditures for the year.

There were five traditional independent school districts and six charter schools that had a net negative unreserved general fund balance exceeding 2.5 percent of Fiscal Year 2009 unreserved/undesignated general fund expenditures. That was the lowest number of active traditional school districts in SOD for as far back as data could be retrieved on the topic.

Three of the six charter schools were new to the SOD list for Fiscal Year 2009. No traditional school districts were added to the list.

Table One: Active Traditional Districts and Charter Schools in SOD for FY 2009

Name			Unreserved	General	FY 2009	Final	Hard	First
No.	Type	Traditional District Information	Gen. Fund Balance	Fund Expenditures	SOD Calculation	UFARS Rec'd	Audit Rec'd	Year SOD
93	1	Carlton	-720,531	5,496,668	-13.11%	X	L	2006
286	1	Brooklyn Center	-1,875,889	20,720,180	-9.05%	X	X	2002
458	1	Truman	-286,447	2,931,408	-9.77%	X	X	2006
465	1	Litchfield	-634,335	13,822,743	-4.59%	X	X	2008
2215	1	Norman County East	-75,149	2,965,591	-2.53%	X	X	2007
Charter School Information								
4031	7	Jennings Experiential High School	-135,712	688,316	-19.72%	X	X	2008
4087	7	Sage Academy	-156,921	1,123,763	-13.96%	X	X	2008
4154	7	Recovery School of Southern Minnesota	-40,322	601,892	-6.70%	X	X	2008
4110	7	Main Street School of the Performing Arts	-154,635	2,331,420	-6.63%	X	X	2009
4163	7	Learning for Leadership	-146,706	3,070,268	-4.78%	X	X	2009
4182	7	Quest Academy	-82,864	1,913,941	-4.33%	X	X	2009

Key

Type 1 = Independent School District
 Type 7 = Charter School

X = submitted on time
 L = submitted after deadline

Some units repeated the condition of SOD in recent history. Carlton was in SOD from 2002 through 2004, for a total of 7 of the last 8 years in SOD. Truman was in SOD from 2000 to 2004, for a total of 9 of the last 10 years in SOD. Main Street School of the Performing Arts was in SOD from 2005 to 2007, for a total of 4 of the last 5 years in SOD.

Some of the units that were in SOD in FY 2008 and remained on the list in FY 2009 went deeper into debt. Those units were Jennings Experiential High School and Sage Academy. Each of those units are developing revised recovery plans. Carlton and Truman did not meet their approved SOD recovery goals. They are developing revised recovery plans.

Reporting Units Removed from the SOD List

Table Two contains information on the number and names of traditional districts and charter schools that removed SOD as of June 30, 2009.

Seven (7) traditional districts and two (2) active charter schools removed their SOD condition as of June 30, 2009.

Three (3) districts and two (2) charters schools that removed their SOD condition at the end of FY 2009 also recorded a positive Net Unreserved General Fund Balance in the same year. Those units were Holdingford, Sauk Centre, McLeod West, CyberVillage Academy and Lighthouse Academy.

Fergus Falls and Walker-Hackensack-Akeley removed the condition of SOD one year ahead of plan.

**Table Two: Traditional Districts and Charter Schools
Out of Statutory Operating Debt as of June 30, 2009**

District/School Name		6/30/2008		6/30/2009	
Number and Type	Traditional District	Net Unreserved General Fund Balance	Percent Deficit	Net Unreserved General Fund Balance	Percent Balance
113-1	Walker-Hackensack-Akeley	-723,136	-9.52%	-29,218	-0.41%
371-1	Bellingham	-273,732	-27.07%	-573,915	-54.70%
487-1	Upsala	-187,540	-6.92%	-69,018	-2.17%
544-1	Fergus Falls	-916,078	-4.67%	-280,565	-1.47%
738-1	Holdingford	-220,049	-3.10%	75,038	0.88%
743-1	Sauk Centre	-306,525	-3.65%	204,065	2.44%
2887-1	McLeod West	-573,348	-17.01%	825,670	22.13%
Charter School					
4025-7	CyberVillage Academy	-29,014	-2.78%	44,143	4.07%
4131-1	Lighthouse Academy	-66,602	-3.11%	458,462	22.74%

Bellingham was removed from the SOD list due to consolidation at the end of FY 2009. It had a SOD calculation of -54.70 percent. McLeod West also consolidated, but removed its condition of SOD prior to consolidation. United South Central was on the list last year and removed itself after an accounting error was discovered. Therefore, there were only 12 traditional districts in SOD in FY 2008, not 13.

Units not Complying with Financial Statement (hard copy audit) Submission Deadline

Table Three contains information on the reporting units that did not submit audited financial statements by the date of this report. We were unable to use the financial audit of Yankton Country School to verify the accuracy of the UFARS data. Waynewood School had not submitted the UFARS data and the financial audit and as a result was not included in the SOD calculation.

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

A. Financial Statements not Submitted as of Report Date

4072 Yankton Country School 4176 Waynewood School

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 (traditional school districts and charter schools) over this 20-year period of time was 374 in FY 1997. The largest number of units was 497 units in FY 2009. The increase was due to the opening of a new charter school. Bellingham and McLeod consolidated with other districts for FY 2010 and will reduce the number of reporting traditional school districts from 340 to 338.

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. With the new SOD calculation in FY 2001, the lowest number of units with a negative balance was in FY 2009. The number of active entities with a Net Negative Unreserved General Fund Balance decreased by 12 from FY 2008 to FY 2009 (35 to 23). Of the 12 units with a negative fund balance and not in SOD, five (5) of those units had a negative fund balance that was less than one percent.

The number of active units with SOD reached an all time low of 11 in FY 2009. The highest number of units was 59 in FY 1994. The number of school districts in SOD decreased by seven for FY 2009. The number of charter schools increased by one.

**Table Four: Districts and Charter Schools – Fiscal Years 1990 through 2009
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	2009
School Districts									349	347	346	345	343	343	343	343	343	340	340	340
Charter Schools									<u>29</u>	<u>40</u>	<u>56</u>	<u>68</u>	<u>82</u>	<u>87</u>	<u>112</u>	<u>134</u>	<u>139</u>	<u>149</u>	<u>156</u>	<u>157</u>
Total	436	430	425	413	401	395	378	374	378	387	402	416	411	431	455	477	482	489	496	497
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	35	23
Active Units in Statutory Operating Debt	52	47	48	54	59	29	17	19	15	31	33	45	40	25	25	24	22	24	17	11