

Minnesota Attorney General: Administrative Rules Proceedings

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Attorney General

Lois Steinhaus
Department of Education

March 10, 1977

296-4692

Michael B. Miller
Special Assistant
Attorney General

Rules 760-766 of the Department of Education

As we discussed on the telephone, the above captioned rules are returned herewith to permit certification of compliance with rulemaking procedures by your Attorney General's representative.

MBM:mb

Enclosure

Michael J. Bradley
Special Assistant
Attorney General

April 4, 1977

- EDU Rules Chapter 38 760-779 Governing
"Financial Accounting Reporting Requirements"

ADMIN 1000

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL

Office Memorandum

TO : MICHAEL B. MILLER
Special Assistant Attorney General
G19-K Administration Building

DATE: March 15, 1977

FROM : MICHAEL J. BRADLEY MJB
Special Assistant Attorney General

PHONE: 3301

SUBJECT: EDU Rules - Chapter 38
760-779 Governing
"Financial Accounting Reporting Requirements"

Enclosed are all copies and items of the checklist as required for the promulgating of the above-referenced rules.

MJB:li

cc: Lois Steinhaus

Rules as Adopted

Chapter Thirty-Eight: Financial Accounting Reporting Requirements

EDU 760 Coverage.

A. This chapter is applicable to all Minnesota school districts, however organized, including those formed pursuant to Minn. Stat. 121.21, as well as to all governmental units formed by joint powers agreements entered into by such school districts pursuant to Minn. Stat. 120.17, 123.351, 471.59, or any other law, and all educational cooperative service units. For purposes of this chapter, all covered entities are referred to as "districts."

B. The requirements of this chapter are applicable to all unaudited financial reports for the fiscal year ending June 30, 1977, and each year thereafter. These requirements shall also provide the basis for amending the unaudited financial reports for the fiscal year ending June 30, 1976, and each year thereafter.

C. These requirements apply to all budgets prepared for the fiscal year ending June 30, 1978, and each year thereafter.

D. Where details of and forms for reporting to the department are specified, such details and forms shall be prescribed by the commissioner after recommendations have been made by the advisory council on uniform financial accounting and reporting standards.

E. The requirements adopted in this chapter shall be known as the uniform financial accounting and reporting standards for Minnesota school districts.

F. The state auditor shall have ultimate authority to decide questions relative to accounting classifications and application to district accounting transactions of the standards contained herein.

G. Post-secondary financial reporting shall be separated from elementary-secondary financial reporting.

EDU 761 Modified accrual accounting and other accounting requirements.

A. Revenues and expenditures shall be recorded and recognized in accordance with generally accepted accounting principles. Generally accepted accounting principles provide for the accrual

basis of accounting and the modified accrual basis of accounting as appropriate for the particular fund. The cash basis of accounting is not acceptable for district accounting and reporting. Specific standards for revenue recognition are contained in Minn. Stat. 121.904. Specific standards for expenditure recognition are contained in Minn. Stat. 121.905.

B. Accounting and reporting systems shall be designed to provide financial data, where applicable, according to the terms and categories used in the statutes with particular attention to categorical programs funded by the state.

C. Development of programmatic data for district internal reporting and management purposes, and for reporting to the public and the department, requires the use of multi-dimensional systems of classification of transactions. Installation of such multi-dimensional systems shall be implemented as of July 1, 1980, as specified in Minn. Stat. 121.92.

D. Participation in a computer-based financial management, accounting, and reporting system is required as of July 1, 1980, as specified in Minn. Stat. 121.92. Any stipulated form of participation in this computer-based system shall be appealable to the commissioner.

EDU 762 Fund accounting.

A. A fund is an independent accounting entity having its own assets, liabilities, obligations, revenues, expenditures, reserves, and equity balances. Funds shall be established for the purpose of accounting for those specific resources provided for the attainment of particular public objectives, as designated by statute or rule.

B. The following funds shall be maintained:

General Fund

Food service fund

Pupil Transportation fund

Community services fund

Capital expenditures fund

Building construction fund

Debt redemption fund

Trust and agency fund.

C. The general fund, the food service fund, the pupil transportation fund, and the community services fund shall collectively be known as the operating funds. The other funds collectively shall be known as the nonoperating funds.

D. An account group is a self-balancing group of accounts. Account groups represent a district's general fixed assets and long-term indebtedness that are not segregated for carrying on specific activities. A general fixed asset group of accounts and a general long-term debt group shall be maintained.

E. Revenues, expenditures, and encumbrances shall be recorded in the appropriate funds as designated by law, this chapter, or generally accepted accounting principles.

F. General fund assets may be used for any general or special purpose of a school district and may be transferred permanently by local governing board action to any other fund where the resources of that other fund are not adequate to finance approved expenditures from such fund.

G. All funds other than the general fund are special purpose funds in which expenditures may only be made for the special purposes of the fund. Transfers of monies from special purpose funds to other funds are not permitted unless herein provided:

1. Transfers may be made from any fund to another fund to pay for expenditures legitimately chargeable to one fund but expended from another. Such items are most appropriately accounted for on a current basis, as inter-fund transactions, increasing the expenditures of one fund and reducing those of another.

2. Transfers may be made from the capital expenditure fund to pay for expenditures from other funds for capital expenditure purposes as defined in EDU 763 C.

3. Any excess of revenues over expenditures in a building construction fund after completion of an authorized building program shall be transferred to the debt redemption fund.

4. No debt redemption levy shall be made in excess of current plus future obligations for principal, interest, and service charges reduced by the current balance in the debt redemption fund, except as otherwise provided in law. Any balance in the debt redemption fund, after all obligations have been paid, shall be transferred to the general fund.

EDU 763 Revenue and expenditure classification principles.

A. General.

All revenue accounts shall specify sources of revenue and all expenditure accounts shall specify expenditure classification in sufficient detail to permit grouping in the respective revenue and expenditure categories and to permit required federal reporting.

Interdistrict revenues and expenditures must be identified in a manner which permits proper fund and account classifications.

"Netting" revenues and expenditures is not permissible except as allowed under generally accepted accounting principles.

B. Revenues.

The following groups of revenues, by major sources, shall be reported to the department by the districts:

Total local and county revenues
Total state revenues
Total federal revenues
Sale of bonds
Sales and other conversions of assets
Interdistrict revenues.

For certain state reporting purposes, sale of bonds, sales and other conversions of assets, and interdistrict revenues may be grouped with local and county revenues.

C. Expenditures.

The following groups of expenditures, by major program categories, shall be reported to the department by the districts:

Total administration
Total instructional salaries
Other instructional expense
Total attendance and health services
Total transportation
Total operation of plant
Total maintenance of plant
Total fixed charges
Total food services
Total student activities
Total community services
Total capital outlay
Total debt service
Interdistrict expenditures.

All expenditure accounts shall include sufficient identification to permit their classification in the above groupings. In addition, fund, programmatic designation, object of expenditure, and other identifiers, as required to meet local financial management, state, and federal reporting requirements, shall be provided.

Local accounting practice must include requirements for appropriate expenditure account distribution, according to generally accepted accounting principles.

Appropriate account codes shall be used to identify indirect cost factors, as required for federal programs.

Maintenance and capital improvements expenditures shall be distinguished, in accordance with generally accepted accounting principles. Capital expenditures are those which extend the life of an asset, increase its value, or change its use or character.

A distinction shall be made between supplies and equipment, in accordance with generally accepted accounting principles and item definitions. Supplies are defined as those items which have a nominal value, and are expendable or are consumed in use. Equipment items are tangible units of a nonexpendable character, are not consumed in use, have an extended useful life, and are of material value.

EDU 764 Audited and unaudited financial statements, budgets.

A. Unaudited financial statements for the fiscal year ending June 30 shall be submitted to the commissioner by August 15, 1977, and by August 15 of each year thereafter. Audited financial statements shall be submitted to the commissioner and the state auditor by June 30 following.

1. The four financial statements which must be prepared by each district for each fund of the district are as follows: a. a balance sheet; b. a statement of revenue; c. a statement of expenditures and encumbrances; and d. a statement of changes in fund balances.

2. A statement of general fixed assets and a statement of general long-term debt shall be prepared by each district for its account groups.

B. On or before August 15 of 1977, and of each succeeding year, each district must submit to the department a revenue-expenditure budget for that fiscal year as well as a projected balance sheet for the end of the same fiscal year.

Subsequent revisions to a budget which are of a material amount shall be submitted to the commissioner promptly.

C. A corrected copy of the unaudited financial statements shall be submitted with the audited statements. Explanatory information shall be provided if there are any deviations from the revenue or expenditure recognition practices required by law. Differences between audited and unaudited financial statements shall be reported to the commissioner.

D. If a district is eligible for or is making an additional levy to retire its statutory operating debt, such district shall so footnote its audited financial statement. An historical analysis of the statutory operating debt account shall be provided in the unaudited financial report.

EDU 765 Amendment.

A. The requirements of this chapter, including classifications of funds and accounts, are subject to amendment as provided in this section unless otherwise provided in statute.

B. Any proposals by the state board for revision of the requirements in this chapter must be published in the state register. If after twenty days there is no petition for a hearing pursuant to the requirements of Minn. Stat. Ch. 15, such revisions shall be incorporated into this chapter. However, upon receipt of a petition from any interested person upon such proposed revision, the state board shall proceed according to Minn. Stat. 15.0412.

C. Financial information may be requested by the commissioner from the districts on a one-time basis notwithstanding this chapter if necessary to fulfill a request of the executive, the legislature, the U.S. Office of Education, or any agency having a legislative requirement for such information.

EDU 766 Publication of specifications.

Detailed specifications for the uniform financial accounting and reporting systems for Minnesota school districts shall be published by the state board. These specifications shall in all respects conform to the provisions of this chapter and of Laws 1976, chapter 271.

EDU 767-779 Reserved for future use.

APPROVED AS TO FORM AND LEGALITY
APR 0 1 1977 19
WARREN SPANNAUS, ATTORNEY GENERAL
BY /s/ Michael B. Miller
SPECIAL ASSISTANT ATTORNEY GENERAL

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED
APR 1 1977 4:10 P.M.
Joan Anderson Howe
Secretary of State

State of Minnesota

Department of Education
Capitol Square, 550 Cedar Street
St. Paul, Minnesota 55101

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing financial accounting reporting requirements for Minnesota school districts.

NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that a public hearing in the above-entitled matter will be held in the State Office Building, Room 57, St. Paul, Minnesota, on Thursday, October 21, 1976, commencing at 9:00 A.M. and continuing until all persons have had an opportunity to be heard.

All interested or affected persons will have an opportunity to participate. Statements may be made orally and written materials may be submitted at the hearing. In addition, written materials may be submitted by mail to Room 300, 1745 University Avenue, St. Paul, Minnesota 55104 to the attention of Hearing Examiner Steve Mihalchick, phone number (612) 296-8112, either before the hearing or within 20 days after the close of the hearing.

The proposed rules, if adopted, would establish uniform financial accounting and reporting standards for Minnesota school districts. A copy of the proposed rules, EDU 760-779, is attached hereto. Additional copies will be available at the door on the date of the hearing. The agency's authority to promulgate the proposed rules is contained within Minn. Stat. § 121.07 (1974) and Laws of 1976, chapter 271, section 27. A "statement of need" explaining why the agency feels the proposed rules are necessary and a "statement of evidence" outlining the testimony they will be introducing will be filed with the Hearing Examiners Office at least 25 days prior to the hearing and will be available there for public inspection.

Under Minn. Stat. § 10A.01, Subd. 11, (1974), any individual engaged for pay or other consideration for the purpose of representing persons or associations attempting to influence administrative action, such as the promulgation of these rules, must register with the State Ethics Commission as a lobbyist within five days of the commencement of such activity by the individual.

STATE OF MINNESOTA
Department of Education

September 7, 1976

Joseph B. Graba
For: Commissioner of Education

Rules as Proposed

Chapter Thirty-Eight: Financial Accounting Reporting Requirements

(All New Material)

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D. Where details of and forms for reporting to the department are specified, such details and forms shall be prescribed by the commissioner after recommendations have been made by the advisory council on uniform financial accounting and reporting standards.

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B. Accounting and reporting systems shall be designed to provide financial data, where applicable, according to the terms and categories used in the statutes with particular attention to categorical programs funded by the state.

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4. No debt redemption levy shall be made in excess of current plus future obligations for principal, interest, and service charges reduced by the current balance in the debt redemption fund, except as otherwise provided in law. Any balance in the debt redemption fund, after all obligations have been paid, shall be transferred to the general fund.

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Local accounting practice must include requirements for appropriate expenditure account distribution, according to generally accepted accounting principles.

Appropriate account codes shall be used to identify indirect cost factors, as required for federal programs.

Maintenance and capital improvements expenditures shall be distinguished, in accordance with generally accepted accounting principles. Capital expenditures are those which extend the life of an asset, increase its value, or change its use or character.

A distinction shall be made between supplies and equipment, in accordance with generally accepted accounting principles and item definitions. Supplies are defined as those items which have a nominal value, and are expendable or are consumed in use. Equipment items are tangible units of a nonexpendable character, are not consumed in use, have an extended useful life, and are of material value.

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1. The four financial statements which must be prepared by each district for each fund of the district are as follows: a. a balance sheet; b. a statement of revenue; c. a statement of expenditures and encumbrances; and d. a statement of changes in fund balances.

2. A statement of general fixed assets and a statement of general long-term debt shall be prepared by each district for its account groups.

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Subsequent revisions to a budget which are of a material amount shall be submitted to the commissioner promptly.

C. A corrected copy of the unaudited financial statements shall be submitted with the audited statements. Explanatory information shall be provided if there are any deviations from the revenue or expenditure recognition practices required by law. Differences between audited and unaudited financial statements shall be reported to the commissioner.

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EDU 765 Amendment.

A. The requirements of this chapter, including classifications of funds and accounts, are subject to amendment as provided in this section unless otherwise provided in statute.

B. Any proposals by the state board for revision of the requirements in this chapter must be published in the state register. If after twenty days there is no petition for a hearing pursuant to the requirements of Minn. Stat. Ch. 15, such revisions shall be incorporated into this chapter. However, upon receipt of a petition from any interested person upon such proposed revision, the state board shall proceed according to Minn. Stat. 15.0412.

C. Financial information may be requested by the commissioner from the districts on a one-time basis notwithstanding this chapter if necessary to fulfill a request of the executive, the legislature, the U.S. Office of Education, or any agency having a legislative requirement for such information.

EDU 766 Publication of specifications.

Detailed specifications for the uniform financial accounting and reporting systems for Minnesota school districts shall be published by the state board. These specifications shall in all respects conform to the provisions of this chapter and of Laws 1976, chapter 271.

EDU 767-779 Reserved for future use.

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the State Board of Education governing Financial Accounting Reporting Requirements for Minnesota school districts.

ORDER FOR HEARING

IT IS HEREBY ORDERED that a public hearing on the above - captioned rules be held in the State Office Building, Room 57, St. Paul, Minnesota, on Thursday, October 21, commencing at 9:00 A.M. and continuing until all persons have had an opportunity to be heard.

IT IS FURTHER ORDERED that a Notice of Hearing be mailed to all persons or representatives of associations or other interested groups who have registered their names with the Secretary of State for that purpose.

IT IS FURTHER ORDERED that the Notice of Hearing be published in the State Register.

STATE OF MINNESOTA
Department of Education

For: Commissioner of Education

Date: August 27, 1976

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing financial accounting reporting requirements for Minnesota school districts.

AFFIDAVIT OF RECEIPT OF SECRETARY OF STATE'S LIST

Gary Nachman, being duly sworn on oath deposes and says:

1) That he is an employee of the Department of Education of the State of Minnesota.

2) That on the 20th day of September, he went to the Secretary of State's office for the State of Minnesota and requested a current list of all representatives of associations or other interested groups or persons who had registered their names with the Secretary of State for the purpose of obtaining notices of public hearings relating to the promulgation of rules pursuant to M.S. 15.0412.

3) That on the 20th day of September, in response to the above request, the Secretary of State provided him with such a list, a copy of which is attached hereto and incorporated by reference.

Further affiant sayeth not.

Gary Nachman

Subscribed and sworn to before me
this 20th day of September
19 76

Betty L. King

BETTY L. KING
Notary Public, Dakota Co. MN
My Commission Expires
June 13, 1983

Notary Public
Dakota County, Minnesota
My Commission expires 6-13-83.

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing financial accounting reporting requirements for Minnesota school districts.

CERTIFICATE OF DELIVERY
SECRETARY OF STATE LIST

505 12 DC 15 8

I hereby certify that the attached 9 sheets constitute the complete list of persons, associations, and other interested groups who as of 8:45 o'clock A M., this 21th day of September 1976, have requested pursuant to Minn. Stat. 15.0412, subd. 4, (1975), that their names be placed on file with the Secretary of State for the purpose of receiving notice of public hearing on proposed rules on the subject captioned above.

SECRETARY OF STATE
Joan Anderson Growe

By Ciel Dion

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing financial accounting reporting requirements for Minnesota school districts.

STATEMENT OF NEED

The above captioned rules are proposed new rules, EDU 760-779, of the state board of education.

The need to adopt these rules arises because of the reasons outlined on the attached 12 pages.

Commissioner of Education

STATEMENT OF NEED

INTRODUCTION

Reforms in 1971

In 1971, legislation was enacted which overhauled the financing of education in the state of Minnesota. Although such financing changes were significant by themselves and have continued to effect legislation since then, the changes were also part of a major tax reform effort implemented at the same time. Essentially, financing of school districts shifted from primary reliance on locally collected property taxes to state collected non-property taxes.

In connection with the changes, the legislature desired a statement of the financial situation of each school district on a comparable basis. Notwithstanding the fact that the state had required annual financial reports for many years on a uniform reporting basis, this legislative need could not be met. As a result, M.S. 122.54 was enacted which placed major emphasis on school districts which were in "operating debt."

Although M.S. 122.54 was crude in accounting terms, the State Auditor's Office (as successor to the Public Examiner's Office) interpreted this law as mandating accrual methods for the audits prepared by school districts. Ultimately, this interpretation was upheld. Most important in the State Auditor's interpretation was the mandating of the dates for revenue recognition for taxes and aids.

Reports to the legislature have been and continue to be based on annual financial reports and not audits which are generally only available nearly a year after the financial reports. Although both reports were based on the same information, the requirements were different and frequently the two reports could not be reconciled by others than the school district personnel. Annual financial reports were still nominally on a cash basis and the adjustments from accrual or to accrual as the case happened to be was an individual matter for each school district's personnel and its local auditor.

In order to meet the legislative mandate for comparable financial situations of school districts, the Department of Education collected information on the major adjustments to a cash system which would be required to estimate an accrual system with the revenue recognition designated. The approximated figures were designated the "Adjusted Cash Balance", a coined term to indicate the limitations of the computation.

Pre-1971 Practices

Prior to 1971, reporting on the Annual Financial Report was governed by the classification system in the Accounting Manual (Manual of Instructions for Uniform Financial Accounting

for Minnesota School Districts.) This manual, as amended from time to time, is the Minnesota version of Handbook II (Financial Accounting for Local and State School Systems: Standard Receipt and Expenditure Accounts.) Handbook II gives the account classifications necessary for federal reporting, most notably on the ELSEGIS Reports (e.g. "Elementary-Secondary General Information System (ELSEGIS) Part A-2b, State Elementary and Secondary School Statistics.")

The purpose of the Accounting Manual was to obtain uniformity of reporting especially for federal reporting. In the main, state reports were spin-offs from the data required for federal reporting (e.g. "Selected Data for Districts Maintaining Elementary and Secondary Schools. Year Ending June 30, 1974 and Aid for 1973-74 School Year" and "Financial Statement for Minnesota Public School Districts for the Year Ending June 30, 1974, Compared with Previous Year.")

The Accounting Manual provided many procedures for a cash accounting system in excess of the classification of accounts. One important provision was that for fund accounting. Though funds were specified, their use was not limiting or binding. Various guidelines were included but, as in the case of the distinction of equipment from supplies, guidelines were modified for different programs monitored by the Department.

In endeavoring to assist school districts in meeting their management needs, the Department contracted for the development of POBAS, program oriented budget and accounting system (not included in the documentary evidence.) This model multi-dimensional system has been the basis for every computer-based system developed in Minnesota to date. With the abandonment of manual methods came the abandonment also of cash accounting. The adopters of computer-based methods accepted the accountants' advice that cash accounting was not an acceptable system, if indeed it was a system at all. The changeover, adopted in some degree by all metropolitan school districts and many outstate districts, involved the inclusion of conversion techniques by which state reporting could be met - not always converting to a strict cash basis.

The Public Examiner had responsibility for the audits made by his department and the Department of Education had responsibility for Annual Financial Reports. No requirement or effort for their reconciliation existed. The Public Examiner advised the Department as provided in Minnesota Statutes 121.11, Subdivision 5.

Interim Adjustments 1971-1976

From 1971 through 1976, greater school district involvement in the Annual Financial Report was realized by the initi-

ation of regional meetings instead of Superintendant Conferences to communicate changes. The Aids, Levies and Accounting Memo series was initiated not only to communicate with school districts but with private auditing firms and others interested in fiscal matters. After a Departmental reorganization, the two new sections each communicated financial information through respectively the Research, Aids and Statistics Memo series and the Financial Accounting Instructions series.

Important changes that occurred included the limitation of districts to particular funds. The AVTI Fund was recognized as a dedicated fund from which transfers were restricted. The Community Service Fund was reestablished with a clearer definition of the transactions to be included. Ultimately, the Student Auxiliary Fund was repealed by law because no clear use of the fund could be established.

With the growth of new educational delivery systems, primarily joint powers districts, it became necessary to extend reporting to new government units and to create new account numbers to permit accurate descriptions of district activities and still permit state and federal reports in detail and without duplications.

In 1972, the Commissioner of Education appointed a committee, largely composed of school district fiscal personnel to review multiple dimension classification systems of the POBAS type to provide information to school districts for their management needs. The legislature in 1973 provided for such a classification system in Laws 1973, Chapter 683, Section 22. This law also called for greater dissemination to the public about the operation of school districts. This latter demand has been met in large part by the issuance of a series of Education Update reports of the type included with the documents submitted. In a separate effort, the legislature provided for the Minnesota Educational Computing Consortium (MECC) which could provide the means for carrying out a multi-dimensional accounting classification system.

At approximately the same time, the U.S. Office of Education was releasing Handbook II Revised (Financial Accounting: Classification and Standard Terminology for Local and State School Systems.) Unlike Handbook II, which specified codes for federal reporting, this manual was more in the nature of a guideline. The multi-dimensional planning in Minnesota was consistent with the apparent directions being taken at the federal level. The draft UFARS Manual (Manual for the Uniform Financial Accounting and Reporting System for Minnesota Schools (Preliminary)) not only conformed to federal planning but because it was a POBAS based system, it minimized the amount of work that would be necessary to convert a present computerized system.

With the reporting of Adjusted Cash Balances (see uncorrected table in Aids, Levies and Accounting Memo No. 23) and reported financial difficulties in school districts, concern grew with respect to school district debt. In the 1975 session of the legislature, H.F. 1821 was introduced to provide for districts in financial distress. One problem that arose in the hearings on this bill was the need for a uniform revenue and expenditure recognition policy.

A governmental reorganization occurred in 1973 which placed the duties of the Public Examiner with respect to auditing school districts. The power to audit state departments, including the Department of Education, went to the legislative auditor. In assigning the duties to the respective agencies, the Revisor of Statutes assigned in error the duties of advising the Department of Education to the legislative auditor in Minnesota Statutes 121.11, Subdivision 5. This error has been properly identified in the attachment of the Robert A. Whitaker memo to Russell C. Andrews. Since the error was clearly inconsistent with other statutes, the State Auditor's Office has continued to provide the accounting counseling to the Department of Education. With personnel of the State Auditor's office, private auditors and members of Minnesota Society for Certified Public Accountants either serving on the committee or its subcommittees, the support for ending the unacceptable cash accounting in favor of modified accrual accounting grew. The contributions of these qualified professionals helped, in working with school district and state personnel, to formulate a satisfactory choice of alternatives to be incorporated into a uniform plan. This assistance was most crucial for determining school district operating debt.

1976 Legislation and Other Developments

As can be observed, a momentum was building for a multi-dimensional accounting system which could provide for local management needs which would provide for state and national needs as a by-product. The implementation schedule that was devised coincided well with the MECC delivery system in that both could be completed by June 30, 1980 at the earliest. Both developments involve considerable participation by the users and producers and could not be legislated into instant operation.

The professional demands for an acceptable, uniform accounting system was supported at all levels of government planning. In its simplest application, modified accrual accounting could be implemented from a cash system by selective year end adjustments. Hence, it was recognized that any training required could be accomplished in a year, that is, by June 30, 1977.

Because the Accounting Manual was becoming progressively more out-of-date and because the UFARS Manual did not have application to a two-dimensional system, Larry Shomion and others were directed to update the crucial sections of the Accounting manual ("First Draft of Revised Current Accounting Manual, Chapter VI, Revenues and Expenditures.") This revision is based on retaining the old manual as inviolate as possible. It is understood that reporting requirements from this revised manual will be subject to the UFARS rules adopted in this hearing. Other codes will be optional at the discretion of the school districts.

During the period prior to 1976, the Annual Financial Report had been expanded in many ways to a year-end report. In connection with the changes that had been occurring, many items have been eliminated or transferred to other reporting systems: pupil projections, transportation accounting, student athletic information, secondary vocational supplementary accounting, bus accounting, unemployment insurance accounting, tax receipts, etc. The critical addition has been the balance sheet which is the heart of accrual accounting.

Lest it not be clear, legislators and legislative staff worked closely with state and local personnel and others involved to make a product which would be responsive to the need for public information on a uniform basis and for fiscal responsibility at the school district level. The legislature does not make its decisions with a void of information (e.g. see [illegible] memo by Joyce Krupey.) Major legislation is enacted on the basis of information which emanates from the accounting system for example, the adjusted maintenance cost per pupil unit used to determine foundation aids and levies (not included in exhibits.) One law which specifically refers to the accounting system is Minnesota Statutes 123.932; a tabulation from the Annual Financial Report for a court test of the constitutionality of this law is contained in the Leo A. Bernat memo to Mark Loevinger entitled "Aid for Nonpublic Pupils."

Before passing on to the 1976 legislation, it should be noted that the quality of information provided by the Department of Education from school district reports has an effect on agencies which assemble their information from summary reports or department edited reports. One example is the Report of the State Auditor which is issued annually. The same is true with respect to federal reports (not included in the exhibits.)

In the 1976 legislative session, the UFARS provisions were enacted in the Education Omnibus Bill. They constitute Sections 21, 25 to 34 and 88 of Laws 1976, Chapter 271.

Section 27 mandates that uniform financial accounting and reporting standards shall be adopted pursuant to Chapter 15 hearings. That is the purpose of this rules proposal. That section also provides that such standards shall be recommended to the state board of education by the advisory council on uniform financial accounting and reporting standards. Such a Council was appointed as of August 1, 1976 and it adopted the proposed rules, mainly developed by its predecessor committee, which it recommended to the state board. The proposal is being considered because of its adoption by the state board.

The Rules as Proposed

General Comments

Throughout the rules proposed, there will be references to Laws 1976, Chapter 271, Sections 21, 25 to 34 and 88. To simplify these references, only the Section will be referred to parenthetically after the discussion with subdivision notations as appropriate. These may be called the UFARS laws.

There are general authorizations which must be subsumed throughout. For the Department of Education, Minnesota Statutes 124.11, Subdivision 5 as amended by Laws 1976, Chapter 271, Section 21 has been the broad authority for requiring a uniform system of records and of accounting by school districts. The State Auditor has broad authority for establishing and prescribing accounting and budgeting systems under Minnesota Statutes 6.47. In addition, the State Auditor has the power to prescribe minimum auditing standards for subdivisions of government, which are to be observed by private auditors. These general authorizations, of course, yield to specifics mandated under the UFARS laws.

Finally, generally accepted accounting principles, to which extensive reference is found throughout the UFARS laws, are to be found in the GAAFR (Governmental Accounting, Auditing, and Financial Reporting) and the Audit Guide (Audits of State and Local Governmental Units.) As their titles indicate, these documents relate to public accounting. In addition, the Society for Certified Public Accountants maintains communications about any changes which occur in generally accepted accounting principles as they relate to public accounting.

Expert witnesses, familiar with aspects of the information already presented or to be presented will provide testimony as they feel necessary to further amplify this Statement of Need.

EDU 760 A. In order to fully understand all educational revenues and expenditures for educational delivery systems under the jurisdiction of the Department of Education, it is necessary that all units report. This makes it possible as well to eliminate duplications from transfers of revenues and expenditures between districts. Because of increasing uses of reimbursements between districts, corrections of source and programmatic detail are possible. (Section 30, Subdivisions 1 and 5.)

The generalized definition of "districts" simplifies the rule in that the entities to which the rule applies need not be repeated throughout.

EDU 760 B. The primary accounting report used for federal, state and local reporting is the annual financial report. Although the classification system also applies to subordinate reporting systems, it is meaningless if it does not apply to the primary report. (Section 30, Subdivision 2.)

Since these requirements shall also apply to audits, the audits shall be used to amend the annual financial reports which are in effect preliminary audit reports. Thus, preliminary financial information can be converted to final audit figures. (Section 30, Subdivision 3 and Section 32, Subdivision 9.)

EDU 760 C. Inasmuch as budgets are preliminary estimates of the transactions to take place in the Annual Financial Report, they have little use unless they are prepared on the same basis. Other requirements of the UFARS laws for balanced budgets mean that the same system of revenue and expenditure recognition must be used for budgets as for Annual Financial Reports. (Section 30, Subdivision 4.)

EDU 760 D. Administratively, the responsibility for the preparation of reporting forms must be fixed and, as provided in this subdivision, must have the recommendation of a technically competent advisory group. (Section 21 and Section 30, Subdivision 2.)

EDU 760 E. This provision is essential to make it clear that the entire rule constitutes the standards. Confusion has existed as to whether an accounting manual is in effect the repository of the standards. As noted in EDU 766, the accounting manual contains the specifications derived from this rule. There are many accounting systems and related manuals which use common classifications and identification codes which permit their overlapping uses; such accounting systems include pupil, staff, facilities, student activities, etc., etc. From rules, such as this, appropriate manuals can be derived. (Section 27, Subdivision 1.)

EDU 760 F. Accounting questions are without number. In the last several years an excellent working relationship has been established with the State Auditor's Office whereby that office has made all final decisions on accounting controversies. This derives from the first two general laws specifying powers and from the recognition that the personnel of the State Auditor's Office are professionally competent in terms of their position requirements. They remain informed on all developments in the accounting profession and practical applications of such developments. The State Auditor's Office has settled whether certain expenditures are appropriate, whether a given item is an equipment or a supply, whether an activity is maintenance or capital, and so on. It would certainly be in his purview to determine whether a classification for an accounting manual is consistent with law and these rules. (Minnesota Statutes 6.47 and 121.11, Subdivision 5.)

EDU 760 G. Post-secondary financial reporting is governed not only by requirements for the Department of Education but also for the Higher Education Coordinating Board. Such reporting is required of only the 33 Area Vocational Technical Institutes (AVTI's). Financing of AVTI's is completely separate from elementary-secondary financing - even the pupil counts are handled differently. In addition, post-secondary vocational financing requires funds comparable to those in use for elementary-secondary reporting; hence, a single fund for this purpose is inadequate. (Minnesota Statutes 121.211 and Laws 1976, Chapter 271, Sections 42 and 56.)

EDU 761 A. The requirements for accrual and modified accrual accounting has been justified before. The recognition that cash accounting is unacceptable has been previously indicated. Without accrual methods, it is not possible to obtain the fund balances necessary in Section 32, Subdivision 1 for the determination of Statutory Operating Debt. (Sections 25; 27, Subdivision 1; 28; and 29.)

EDU 761 B. In EDU 762 B, reference is made to the various laws justifying funds. In addition, there are other laws providing revenues to districts. The legislature consistently seeks information about the nature of its enabled revenues to districts for essentially management planning. (Minnesota Statutes 121.49.)

EDU 761 C and D. The details of the efforts from the first POBAS report have been enumerated together with the 1973 mandate and the MECC effort. At the federal level, the issuance of Handbook II Revised has been reviewed. (Section 34 and Laws 1973, Chapter 683, Section 22.)

EDU 762 A. Fund accounting has been in effect in Minnesota for many years. With greater emphasis by the Department of Education and greater attention by the local auditors, it is felt that a high level of consistent application has been realized. Funds have been established for major accounting entities with minor accounting entities grouped into funds. These latter entities include individual building construction funds, individual debt instruments, federal projects, unemployment insurance resources, etc. In order to describe the fund operations of a district and compare it with state fund operations, it is necessary that funds be specified and limited. (Sections 28, Subdivision 2 and 29, Subdivision 2.)

EDU 762 B. The specific funds enumerated are currently in use. An enumeration of statutes relating to the funds or revenues for the funds are contained in the Statement of Evidence.

In fund accounting, there is always a general purpose fund into which general and special purpose funds are incorporated. Into this fund are placed the maintenance and referendum levies, foundation aid, unemployment insurance and judgment levies, extracurricular revenues, special education and secondary vocational, as well as most federal, aids. In addition to these revenues, there are emergency aid, taconite taxes and numerous others, many of which are being phased out. Except as provided by other funds, maintenance or operating expenditures are made from the General Fund.

The Food Service Fund is primarily distinguished by virtue of the fact that its operation results from an agreement with the U.S. Department of Agriculture (q.v.) Federal and state aids are clearly distinguished from other programs. Federal reporting requires almost all the same information provided for Annual Financial Reports.

The Pupil Transportation Fund, although financed exclusively by state and local aids, is a self-contained program. The financing of pupil transportation is dependent upon an additional accounting system which must be balanced against reporting and accounting for the Annual Financial Report.

With the exception of summer school which is not provided during the regular school year, the Community Service Fund accounts for transactions for other than elementary-secondary education. Included are adult programs and preschool programs. These transactions are excluded in the computations of pupil costs as a general rule.

The Trust and Agency Fund is used for bequests and gifts with stipulations which can be adhered to by the local school board. If the bequest or gift needs no separate handling, the General Fund is used.

The Capital Expenditure Fund, primarily funded from local levies, provides for capital expenditures which are not defined as being an expenditure to be made from another fund, e.g. bus expenditures from the Pupil Transportation Fund and food equipment from the Food Service Fund.

The Building Construction Fund is a capital expenditure fund financed from locally approved bonding issues.

The Debt Redemption Fund is used for the payment of bonded debt and loans.

EDU 762 C. The specification of the operating funds is necessary for the determination of Statutory Operating Debt. Traditionally, debt and capital funds are not considered operating funds. Since trust and agency funds do not belong to the district, they too were excluded. (Section 32, Subdivision 1.)

EDU 762 D. Fixed assets and long-term indebtedness are usual components of audits. These are generally required for a minimum audit. (Minnesota Statutes 6.65)

EDU 762 E. In fund accounting, transactions must be identified by fund. The reference to a fund balance indicates the existence of a balance sheet with assets, liabilities, and encumbrances. The fund balances, as noted before, are necessary for the determination of Statutory Operating Debt or in ordinary parlance, the financial situation of the district. (Section 28, Subdivision 2; Section 29, Subdivision 2 and Section 32, Subdivision 1.)

EDU 762 F. Since funds may be used for any special purpose of the district, they may be transferred from the General Fund permanently to any other fund. (Minnesota Statutes 275.125, Subdivision 2a.)

EDU 762 G. It follows that if funds are provided for a specific purpose by law, they may only be used for that purpose unless specifically provided to the contrary. Clauses 1 and 2 do not violate this provision. The exception in clause 3 is provided in Minnesota Statutes 475.65. The limitation in clause 4 arises because there is a levy limitation law (Minnesota Statutes 275.125) which is circumvented if additional levies can be made which are then transferred into the General Fund pursuant to the exception provided in Minnesota Statutes 475.61, Subdivision 4.

EDU 763 involves the classifications provided in Handbook II and are required in ELSEGIS reporting.

EDU 763 in the main relies upon the general accounting authority in Minnesota Statutes 6.47 and 121.11, Subdivision 5, as well as Section 27, for the specifics indicated.

In EDU 763 A, allowance is made for required federal reporting. Interdistrict transactions have been growing in complexity because of alternative educational delivery systems. Their control is necessary so that prohibited fund transfers are not accomplished in interdistrict transactions. The abolition of revolving funds in the main has been adopted to prevent the concealing of transactions; however, generally accepted accounting procedures are being used to determine the acceptability of "netting." As an example, netting of current year abatements was not previously allowed but under this rule would be acceptable.

In EDU 763 C, a number of historical accounting problems are enumerated. It is in this area that the enunciation of a generally accepted principle reduces repeated reliance on the State Auditor's Office except for very controversial decisions.

In EDU 764 A, the time and content requirements for Annual Financial Reports and audits are specified. These rely on general accounting provisions in part. Also, these requirements are provided for in section 30, subdivisions 2 and 3. The balance sheet requirement is found in Section 32, Subdivision 1. In EDU 760 B, a discussion of the need for these reports is to be found.

In EDU 764 B, the time and content requirements for budgets are specified. The comments in the previous paragraph apply concerning the reliance on general principles. In EDU 760 C, a discussion of the need for this report is to be found. The requirements are to be found in Section 30, Subdivision 4 and by indirection in Section 33.

Material budget revisions are necessary for information purposes if actual expenditures markedly differ from budgeted expenditures. In addition, summary information should be reflective of the best information available inasmuch as such information could be used for policy decisions.

EDU 764 C. requires a corrected copy of the Annual Financial Report when it differs with the audit, together with an explanation. The revision is necessary to update the Financial Report information to audit levels. Thus, preliminary figures are corrected to final figures. (Section 30, Subdivision 3.)

Audits are permitted to differ from the revenue and expenditure requirements of the UFARS laws and this rule. However, when this takes place, the audit must reveal that information to the audit user. (Section 28, Subdivision 13 and Section 29, Subdivision 7.)

In EDU 764 D, any district which is making a Statutory Operating Debt levy is required to reveal this in the audit. It was felt that this statement would be an assist for the district when its audit was being reviewed for rating the district. If the district were in debt, it is helpful to reveal that there is an orderly method for discharging the deficit. (Section 32, Subdivisions 1 and 8.)

Also, a district which is making a Statutory Operating Debt levy is required to provide an historical analysis in the Annual Financial Report. This report is used in ascertaining whether the district is conforming with the expenditure limitations imposed. (Section 33.)

EDU 765 A is introductory to the following two subdivisions.

EDU 765 B provides for the amendment of the requirements in this rule by an exception procedure. In the original adoption of the UFARS laws, it was not known whether principles as prepared in this proposal could be formulated or whether it was necessary to adopt an accounting manual. Since the latter was a possibility and since a Chapter 15 process to amend a manual would involve prohibitive delays, the exception procedure was provided. The proposed rule demonstrates that a manual is not necessary nor wise for adoption, because of the need for many manuals using overlapping principles. If, indeed, a manual is not required, then this exception procedure could be eliminated from the UFARS laws. (Section 27, Subdivision 2.)

In EDU 765 C, allowance is made for one-time requests based on later law, both state and federal. The lengthy procedure for amending a rule does not provide sufficient time to meet new legal requirements recently enacted. New law takes precedent over old law. (Minnesota Statutes 645.02.)

EDU 766 provides initially for an accounting manual but ultimately for related manuals for systems using the same codes. As noted in EDU 760 F, the State Auditor would have final say about which codes were appropriate. (Minnesota Statutes 6.47 and 121.11, Subdivision 5, as well as the UFARS laws.)

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the State Board of Education governing Financial Accounting Reporting Requirements for Minnesota school districts.

STATEMENT OF EVIDENCE

In addition to the "Statement of Need" which is available for inspection or purchase at the Office of Hearing Examiners, Room 300, 1745 University Avenue, St. Paul, Minnesota 55104, and in support thereof the Department will introduce the following evidence:

The evidence to be presented by the Department at the hearing will be that which is reviewed in detail in the "Statement of Need." Briefly that evidence supports Laws 1976, Chapter 271, section 27 which directs the state board of education to promulgate rules relating to financial accounting and reporting requirements for Minnesota school districts. The statements from experts will indicate the need for the standards, the broad base of involvement in their development, the standardization of usage and uniformity obtainable and the degree of professionalism involved. Finally, documents will be entered into evidence indicating past and potential future usage of financial accounting and reporting standards and will relate to source documents for current practices.

We may call one or more of the following expert witnesses to testify:

Department of Education Personnel

Ronald Laliberte, Assistant Commissioner for School Management Services and Board Member, Columbia Heights Independent School District No. 13, will provide testimony on the practices in the department prior to the 1976 legislative enactments, including the development of such legislation, and the need for such legislation in terms of the state and of a school board.

Ronald Moir*, Director, School Financial Management Section will provide testimony on the nature of state financial reports, their contrast with audits and budgets, as well as developments toward computerization of the process.

S. Walter Harvey, Director, State Aids, Statistics and Research Section, will provide testimony on federal reporting requirements, research demands from the governor, legislature, courts, various agencies and the public in general as well as information needs for the payment of aids.

Personnel from Other State Departments

Russell Andrews*, Director of Municipal Audits, Office of the State Auditor, will provide testimony on the powers of the State Auditor to set accounting and auditing standards for school districts and the role of the State Auditor in the proposed rule.

Willard C. Olson, Deputy Legislative Auditor, will provide testimony on the powers of the Legislative Auditor to audit state agencies and the need for uniformity.

Larry Shomion, Senior Auditor, Office of the State Auditor, will provide testimony on the Accounting Manual, effects of the rule and projected changes.

Thomas O'Connell, Principal Auditor, Office of the State Auditor will provide testimony about accounting practices of Minnesota School Districts and their compatibility with those promoted by the Minnesota Society of Certified Public Accountants.

School District Personnel

Donald Klassy*, Manager of Fiscal Affairs, Osseo Independent School District 279, Chairman of the UFARS Advisory Council, will provide testimony on the past and present involvement of affected groups in the development of the UFARS standards.

Dennis Peterson*, Superintendent, Southland Independent School District 500, will provide testimony on the superintendent's need in the accounting system.

Robert Rego*, Business Manager, Staples Independent School District 793, will provide testimony on the adequacy and involvement of area vocational technical institutes in this rule.

Donald Siefert, Business Manager, Perham School District 549, will provide testimony on the use of computer based financial management system incorporating the Preliminary UFARS account classifications for medium-to-small school districts.

Other Public Agencies

Bruce Lee, Financial Services Team Leader, Minnesota Educational Computing Consortium, will provide testimony regarding the processes involved in implementation and operation of computer based financial management systems.

Professional Society

Luke Botica, C.P.A., Peat, Marwick, Mitchell and Co. and representative of Minnesota Society of Certified Public Accountants on UFARS Advisory Council, will provide testimony about society standards of accounting and the audit guide.

Private Firms

Don Anfinson, C.P.A., Anfinson, Hendrickson Co., will provide testimony on the need for consistency of reporting data useful for comparison between districts in conformance with generally accepted accounting.

John Lilja, C.P.A., Hasken and Sells Company, and former Deputy State Auditor, will provide testimony on the compatibility of the standards provided and the professional standards in effect for school district.

* Member of the Advisory Council on Uniform Financial Accounting and Reporting Standards.

We intend to introduce the following manuals, books, scientific treatises, and other documentary evidence:

Committee on Governmental Accounting and Auditing, American Institute of Certified Public Accountants, Audits of State and Local Governmental Units. New York, AICPA, 1974.

The National Committee on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting. Chicago, Municipal Finance Officers Association of the United States and Canada, 1968.

U.S. Department of Health, Education and Welfare, Office of Education, Financial Accounting for Local and State School Systems: Standard Receipt and Expenditure Accounts. State Educational Records and Reports Series: Handbook II. Washington, U.S.G.P.O., 1957.

U.S. Department of Health, Education and Welfare, Office of Education, Financial Accounting: Classifications and Standard Terminology for Local and State School Systems. State Educational Records and Reports Series: Handbook II, Revised. Washington, U.S.G.P.O., 1973.

State of Minnesota, Department of Education, Manual of Instructions for Uniform Financial Accounting for Minnesota School Districts (1961 Revision). St. Paul, the Department, 1961, as amended.

Shomion, Larry et al, "First Draft of Revised Current Accounting Manual, Chapter VI, Revenues and Expenditures." St. Paul, Minnesota Department of Education, 1976.

State of Minnesota, Department of Education, Manual for the Uniform Financial Accounting and Reporting System for Minnesota Schools (preliminary). St. Paul, the Department, 1975.

Minnesota State Department of Education, "Statistics Reveal School District Differences," Education Update Special Report, Vol. 10, Special Edition No. 2. St. Paul, the Department, Spring 1976.

Harvey, S. Walter, "MEMORANDUM TO: All School Superintendents," Aids, Levies and Accounting Memo No. 23. May 5, 1975.

State of Minnesota, Department of Education, State Aids, Statistics and Research, "Selected Data for Districts Maintaining Elementary and Secondary Schools. Year Ending June 30, 1974 and Aid for 1973-74 School Year," Publication FXXXVIII-B-79, Code 1-B-58. February, 1975.

Department of Health, Education, and Welfare, Education Division, "Elementary-Secondary General Information System (ELSEGIS) Part A-2b, State Elementary and Secondary School Statistics," DRAFT for 1976.

Krupey, Joyce, "Education Reporting Dates," Memo to Senate School Finance Subcommittee. August 31, 1976.

Bernat, Leo A., "Aid for Nonpublic Pupils," Memo to Mark Loevinger, Assistant Attorney General, August 25, 1976. U.S. Department of Agriculture, Food and Nutrition Service, Federal-State National School Lunch Act and Child Nutrition Act Agreement with Child Nutrition Section, Minnesota State Department of Education. Agreement No. 12-35-010-9776. July 1, 1976.

Minnesota Department of Education, Statistics Section, "Financial Statement for Minnesota Public School Districts for the Year Ending June 30, 1974, Compared with Previous Year," Report XVIII-B-4a. Undated.

State Auditor, Report of the State Auditor of Minnesota on the Revenues, Expenditures, and Debt of the Local Governments in Minnesota for the Fiscal Years Ended During the Period July 1, 1972 to June 30, 1973. St. Paul, State Auditor. September, 1975.

Harvey, S. Walter, "MEMORANDUM TO: All School Superintendents," Research, Aids and Statistics Memo No. 3. June 30, 1976.

Ron Moir, Financial Accounting Instruction - 2, May 10, 1976.

Minnesota Department of Education School Financial Management, Annual Financial Report for School Year Ending June 30, 1976, Report No. F29-2a. (With instructions.)

Whitaker, Robert A., "Statute Changes," Memorandum to Russel C. Andrews, September 21, 1976 contains a letter to Ms. Ester M. Tonljanovich from Russel C. Andrews March 11, 1975.

We will be citing the following statutes:

General Application

Laws 1973, Chapter 683, Section 22.
Laws 1976, Chapter 271, Sections 25 to 35 and 88
Minn. Stat. 121.11, Subd. 5
Minn. Stat. 1974, 122.54
Minn. Stat. 6.65
Minn. Stat. 6.47
Minn. Stat. 645.02
Minn. Stat. 123.932

General Fund Aids and Levies

M.S. 275.125 Subd. 2a
M.S. 275.125 Subd. 6
M.S. 124.212, Subd. 6b and 7b
M.S. 275.125, Subd. 4
M.S. 268.06, Subds. 25 and 27
M.S. 127.05
M.S. 123.38
M.S. 123.17
M.S. 123.51
M.S. 124.32
M.S. 124.52
M.S. 124.57, 124.59, 124.60, 124.61

Food Fund Aids

Laws 1975, Chapter 433, Section 1, Subd. 4
M.S. 124.645

Pupil Transportation Fund Aids and Levies

M.S. 124.222
M.S. 124.223
M.S. 275.125, Subd. 5

Community Service Fund Aids and Levies

M.S. 121.85 to 121.89
M.S. 275.125, Subd. 8
M.S. 124.271
M.S. 124.26

Capital Expenditure Fund Levies

M.S. 124.04
M.S. 275.125, Subd. 4

Building Construction Fund Bond Revenue

M.S. 475.65

Debt. Service Fund Levies

M.S. 475.61
M.S. 124.35-124.474
M.S. 275.125, Subd. 4
M.S. 122.45

Trust and Agency Fund Revenues

M.S. 123.40, Subd. 3
M.S. 123.19, Subd. 4
M.S. 123.51

AVTI Funds Aids and Levies

M.S. 124.561 to 124.566
M.S. 275.125, Subd. 13 and 14

Leo Allen Bernat
Leo Allen Bernat

Dated: _____

STATE OF MINNESOTA)
(ss.
COUNTY OF RAMSEY)

AFFIDAVIT OF SERVICE

Leonard A. Nelson, being first duly sworn, deposes and says that on the 20th day of January, 1977, at the City of St. Paul, Minnesota, he served the annexed Report of Hearing Examiner, EDU-77-001-SM, on Mr. Howard B. Casmey, Commissioner of Education for the State of Minnesota, at his office on the Seventh Floor of the Capitol Square Building, St. Paul, Minnesota - 55155.

Leonard A. Nelson

Subscribed and sworn to before me
this 21st day of January, 1977.

Eileen A. Gaiovnik

EILEEN A. GAIOVNIK
Notary Public, Ramsey Co. Mn.
MY COMMISSION EXPIRES
December 14, 1980

STATE OF MINNESOTA
OFFICE OF HEARING EXAMINERS

FOR THE BOARD OF EDUCATION

In the Matter of the proposed adoption of rules of the State Board of Education governing financial accounting reporting requirements for Minnesota school districts.

REPORT OF HEARING EXAMINER

The above-entitled matter came on for hearing on October 21, 1976, at St. Paul before Steve M. Mihalchick, Hearing Examiner appointed by the Chief Hearing Examiner. The hearing continued until all interested groups and persons had an opportunity to be heard.

This is a rules hearing pursuant to Minn. Stat. Ch. 15, to determine whether proposed new Minn. Rules EDU 760-779 should be adopted.

Pursuant to Minn. Stat. § 15.0412, subd. 4 (Supp. 1975), this report shall be available to all affected individuals upon request for at least ten days before the Board of Education (Board) takes any final action on the proposed amendments.

The Board shall, if it proposes to adopt the rules as originally proposed or amended, submit the complete hearing record to the Chief Hearing Examiner no earlier than ten days subsequent to the receipt of this Report. It shall include the rules as originally proposed and the rules as proposed for adoption in final form. The Chief Hearing Examiner shall complete his review and submit his report to the Board on the issues of substantial changes in the rule and compliance with Minn. Stat. § 15.0412 within ten calendar days. Thereafter the Board will be responsible for filing the rules with the Attorney General.

Based upon all the records and proceedings herein, the Examiner makes the following:

FINDINGS OF FACT

PROCEDURAL REQUIREMENTS:

1. On August 27, 1976, the Board filed the following documents with the Chief Hearing Examiner:

(a) A copy of the proposed rules;
(b) A proposed Order for Hearing;
(c) A proposed Notice of Hearing and
(d) A statement of the number of persons expected to attend and estimated length of hearing.

2. On September 20, 1976, the Board mailed the Notice of Hearing to all persons and associations who had registered their names with the Secretary of State for the purpose of receiving such notice.

3. On September 21, 1976, a copy of the Notice for Hearing and a copy of the proposed rules were published at 1 State Register 413.

4. On September 24, 1976, the Board filed the following documents with the Office of Hearing Examiners:

(a) The Order for Hearing and authorizing resolution;
(b) The Notice of Hearing as mailed;
(c) The affidavit of receipt of the Secretary of State's list;
(d) The Secretary of State's list and certificate;
(e) The Affidavit of Mailing;
(f) The Statement of Need
(g) The Statement of Evidence.
(h) Copies of all documentary evidence listed in the Statement of Evidence.

The documents were available for inspection at the Office of Hearing Examiners from the date of filing to the date of the hearing.

5. The record was closed at the end of the day on November 10, 1976. One comment was received during the twenty day period.

STATUTORY AUTHORITY:

6. The authority and need to adopt the proposed new rules arises because of the necessity of complying with Minn. Laws 1976, ch. 271, § 27. That section reads:

> "Sec. 27. [121.902] UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS. Subdivision 1. The [Advisory Council on Uniform Financial Accounting and Reporting Standards] shall recommend to the state board uniform financial accounting and reporting standards for school districts. Prior to October 1, 1976, the state board shall adopt uniform financial accounting and reporting standards which are consistent with sections 25 to 34 of this act and with generally accepted accounting principles and practices. The standards so adopted shall be known as the uniform financial accounting and reporting system for Minnesota school districts.
>
> "Subd. 2. The state board shall meet the requirements of chapter 15 in the initial adoption of these standards. In periodically revising these standards, the board need not meet the requirements of chapter 15, but these revisions shall not be effective until 20 days after their publication in the state register. Any interested person may petition the state board for revision of these standards. Upon receipt of such a petition, the state board shall proceed according to section 15.0412."

7. Laws 1976, ch. 271, § 5 amended Minn. Stat. § 121.111, subd. 5, to read as follows:

"UNIFORM SYSTEM OF RECORDS AND OF ACCOUNTING. The state board

shall prepare a uniform system of records for public schools, require reports from superintendents and principals of schools, teachers, school officers, and the chief officers of public and other educational institutions, to give such facts as it may deem of public value. Beginning in fiscal year 1977, all reports required of school districts by the state board shall be in conformance with the uniform financial accounting and reporting system adopted pursuant to section 27 of this act. With the cooperation of the legislative auditor, the state board shall establish and carry into effect a uniform system of accounting by public school officers and it shall have authority to supervise and examine the accounts and other records of all public schools."

8. Laws 1976, ch. 271, §§ 25-34 establishes the general parameters for uniform financial accounting and reporting standards (UFARS). Chapter 271 will be referred to herein as "the Act". The Advisory Council on UFARS created by § 26 of the Act was appointed August 1, 1976. The rules proposed herein are those recommended to the State Board by the Council as required by § 27 of the Act.

PROPOSED MINN. RULE EDU 760-COVERAGE

9. EDU 760 A makes the rules applicable to all Minnesota school districts. Coverage of all districts is necessary for complete analysis by the Department of Education (Department). The broad coverage is required by § 30, subd. 5 of the Act.

10. EDU 760 B makes the rules applicable to unaudited statements beginning with the fiscal year ending June 30, 1977. That is required by § 30, subd. 2 of the Act.

11. EDU 760 C requires budgets for the fiscal year ending June 30, 1978, to be prepared under UFARS. To be comparable budgets must be prepared on the same basis as reports.

12. EDU 760 D fixes the responsibility for the preparation of reporting forms with the Commissioner as provided in § 30, subd. 2 of the Act.

13. EDU 760 E states that these rules are the standards. Confusion has existed as to whether an accounting manual is in effect the repository of the standards. As noted in EDU 766, the accounting manual contains the specifications derived from this rule. There are many accounting systems and related manuals which use common classifications and identification codes which permit their overlapping uses; such accounting systems include pupil, staff, facilities, student activities, etc. From rules, such as this, appropriate manuals can be derived.

14. EDU 760 F gives that State Auditor final authority to decide accounting questions and their application. This is consistent with his duties and authority under Minn. Stat. § 6.47.

15. EDU 760 F reasonably requires that post-secondary reporting be separated from elementary-secondary reporting. Post-secondary financial reporting is governed not only by requirements for the Department of Education but also for the Higher Education Coordinating Board. Such reporting is required of only the 33 Area Vocational Technical Institutes (AVTI'S). Financing of AVTI'S is completely separate from elementary-secondary financing. In addition, post-secondary vocational financing requires funds comparable to those in use for elementary-secondary reporting.

PROPOSED MINN. RULE EDU 761- MODIFIED ACCRUAL ACCOUNTING AND OTHER ACCOUNTING REQUIREMENTS

16. EDU 761 A requires accrual and modified accrual basis accounting. Cash basis accounting is simply not acceptable for it does not provide accurate information and makes it impossible to determine fund balances as required by § 32, subd. 1 of the Act.

17. EDU 761 B requires the use of statutory terms and categories in the system. This is necessary and reasonable so that the legislature, and other agencies, receive reports in terms understandable to them.

18. EDU 761 C and D restate the requirements of § 34, subds. 1 and 2 of the Act requiring implementation of computer systems accounting and reporting by July 1, 1980, using multi-demensional systems of classification of transactions. It is not unreasonable to restate the statutory requirement in this particular rule on basis requirements.

PROPOSED MINN. RULE EDU 762- FUND ACCOUNTING

19. EDU 762 A provides a general definition of "fund". Fund accounting is the means used by the system to make comparisons and evaluations. Statutory limitations and appropriations are based on "funds".

20. EDU 762 B lists specific funds which are required to be maintained. Districts are free to establish other "sub-funds" for special purposes.

In fund accounting, there is always a general purpose fund into which general and special purpose funds are incorporated. Into this fund are placed the maintenance and referendum levies, foundation aid, unemployment insurance and judgment levies, extracurricular revenues, special education and secondary vocational, as well as most federal, aids. In addition to these revenues, there are emergency aid, taconite taxes and numerous others, many of which are being phased out. Except as provided by other funds, maintenance or operating expenditures are made from the General Fund.

The Food Service Fund is primarily distinguished by virtue of the fact that its operation results from an agreement with the U.S. Department of Agriculture. Federal and state aids are clearly distinguished from other programs. Federal reporting requires almost all the same information provided for Annual Financial Reports.

The Pupil Transportation Fund, although financed exclusively by state and local aids, is a self-contained program. The financing of pupil transportation is dependent upon an additional accounting system which must be balanced against reporting and accounting for the Annual Financial Report.

With the exception of summer school which is not provided during the regular school year, the Community Service Fund accounts for transactions for other than elementary-secondary education. Included are adult programs and pre-school programs. These transactions are excluded in the computations of pupil costs as a general rule.

The Trust and Agency Fund is used for bequests and gifts with stipulations which can be adhered to by the local school board. If the bequest or gift needs no separate handling, the General Fund is used.

The Capital Expenditure Fund, primarily funded from local levies, provides for capital expenditures which are not defined as being an expenditure to be made from another fund, e.g. bus expenditures from the Pupil Transportation Fund and food equipment from the Food Service Fund.

The Building Construction Fund is a capital expenditure fund financed from locally approved bonding issues.

The Debt Redemption Fund is used for the payment of bonded debt and loans.

21. EDU 762 C classifies the listed funds as "operating" or

"nonoperating". The specification of the operating funds is necessary for the determination of Statutory Operating Debt.

22. EDU 762 D defines an "account group" as a self-balancing group of accounts and requires maintenance of a general fixed asset group of accounts and a general long-term debt group. This is consistent with generally accepted accounting principles.

23. EDU 762 E requires that revenues, expenditures and encumbrances be recorded in the appropriate fund. In fund accounting, transactions must be identified by fund. The reference to a fund balance indicates the existence of a balance sheet with assets, liabilities, and encumbrances. The fund balances, as noted before, are necessary for the determination of Statutory Operating Debt.

24. Minn. Stat. § 275.125 subd. 2a, allows funds to be used for any special purpose. Therefore, EDU 762 F allows general fund assets to be transferred to any other fund.

25. Conversely, special purpose funds may be used only for the special purpose and assets from the fund may not be transferred to other funds. EDU 762 G restates this general rule and then lists four qualifications, (1) where expenditures were made from one fund but chargeable to another; (2) transfers may be made from the capital expenditures fund to pay for expenditures from another fund for capital expenditures items; (3) as required by Minn. Stat. § 475.65, any excess in a building construction fund after completion must be transferred to the debt redemption fund; and (4) as required by Minn. Stat. § 475.61, subd. 4, any balance in the debt redemption fund, after all obligations have been paid, must be transferred to the general fund.

PROPOSED MINN. RULE EDU 763- REVENUE AND EXPENDITURE CLASSIFICATION PRINCIPLES

26. EDU 763 A states the general requirements of revenue and expenditure reporting. Sufficient detail is needed to permit appropriate grouping and to meet federal reporting requirements. Limited netting of revenues and expenditures is allowed only in accordance with generally accepted accounting principles.

27. EDU 763 B lists the specific revenue sources which must be reported. They are the different categories of revenue resources available to a school district.

EDU 763 C lists the required expenditure classifications. These lists reasonably identify the major classifications that the system must use to make appropriate analysis and reports.

28. Following EDU 763 C are five separate paragraphs that specify and define treatment of various expenditures. Each is necessary to insure proper classification and reporting by the district and follows generally accepted accounting principles. Sufficient account identifiers are necessary for the administration of the system and to meet various reporting requirements.

PROPOSED MINN. RULE EDU 764- AUDITED AND UNAUDITED FINANCIAL STATEMENTS, BUDGETS

29. EDU 764 A, like § 30, subd. 2, of the Act, requires that unaudited financial statements be submitted by August 15 of each year. The financial statements required are those generally accepted in accounting. For each fund: (1) balance sheet, (2) statement of revenues, (3) statement of expenditures and encumbrances, and (4) statement of changes in fund balances. For account groups: a statement of general fixed assets and a statement of general long-term debt. Like § 30, subd. 3 of the Act, the rule requires audited statements to be filed the following June 30.

30. EDU 764 B, like § 30, subd. 4 of the Act, requires submission of the revenue and expenditure budget by August 15 of each year. It also adds the requirement that a projected budget year end balance sheet and material revisions be submitted. This data, in its most current form, must be available, for it may be used for policy decisions at the State level.

31. EDU 764 C, requires that a corrected copy of the unaudited financial statements and explanations be submitted with the audited statements. This is necessary to allow the Department to reconcile any differences as required by § 30, subd. 3 of the Act.

32. EDU 764 D restates the requirement of § 32, subd. 8 of the Act that districts making additional levies to retire statutory operating debt so footnote their audited financial statements. It also adds a requirement that such districts provide a historical analysis of the statutory operating debt account in their unaudited financial reports. This is necessary so the Commissioner can determine whether districts are limiting expenditures as required by § 33 of the Act.

PROPOSED MINN. RULE EDU 765- AMENDMENT

33. EDU 765 A is an introduction to the remainder of the rule.

34. EDU 765 B provides that proposals for revision of these rules shall be published in the State Register and shall be effective twenty days after publication, unless a petition for a hearing is received. If such a provision is received, a hearing will be held in accordance with Minn. Stat. § 15.0412. This rule is the Board's interpretation of § 27, subd. 2 of the Act (set out in Finding #6, above). The Board originally felt that this statutory provision was necessary to avoid the cumbersome requirements of § 15.0412 in the adoption of a detailed accounting manual to implement the policies of these rules. However, the Board feels that such a manual of detail specifications can be issued in a form that does not constitute a "rule" and has proposed legislation to delete the exception to rule-making procedures. Future amendments to these rules would be made under the rulemaking procedures.

The Examiner agrees that the legislature probably intended to have a "notice and objection" system, but that is not what it said. A close reading of § 27, subdivision 2, shows that an interested person may petition for revision of the rules; not for a hearing on Board proposed revisions. Nonetheless, the statute does not prohibit the Board from holding a hearing on its proposals and so the "notice and objection" procedure of the rule is not only reasonable, but in this Examiner's view, commendable.

35. EDU 765 C provides that the Commissioner may request information not otherwise required by this rule when necessary to fulfill requests of the executive, legislature, United States Office of Education, and other agencies having a legislative requirement for such information. The Statement of Need justified this as a precautionary measure. Future state and federal statutory amendments may require more or different information which would require amendment of the rules but not allow time for such amendment. The language of the proposed rule is much broader than this need and would seem to apply to any agency request, not just one mandated by new legislation. Therefore, it is not reasonable.

Furthermore, it is not possible to satisfactorily modify the proposal because it goes beyond the statutory authority of adopting reporting and accounting standards. If new legislation requires immediate information gathering of certain data, no additional rule is needed. The statute would be sufficient authority in itself. Generally, we can expect the legislature to be aware of rulemaking time problems and allow for it in any new laws. EDU 765 C should be deleted; the Board has not demonstrated the need for or reasonableness of the provision.

PROPOSED MINN. RULE DPW 766- PUBLICATION OF SPECIFICATIONS

36. This rule requires publication of detailed specifications for UFARS by the Board. Such specifications must comply with these rules and the Act. This is the manual or manuals referred to above. As long as such manuals do not contain "policy" and are not "statements of general applicability and future effect. . . made to implement" the UFARS law, such manuals would not be "rules" and may be published without going through the rulemaking procedures. The Board stated that all "policy" is stated within these rules and that the manuals would merely provide administrative detail. The Examiner agrees and finds this rule to be reasonable. Such manuals would primarily be forms and codes to be used. Considering the legislative intention expressed by the statutory exception to rulemaking requirements, it would be inappropriate to require such manuals to be subject to those requirements.

CONCLUSIONS

1. Due, timely and adequate legal notice of the hearing was properly served and published by the Board. All other substantive and procedural requirements of stature or rule have been fulfilled.

2. The Board has demonstrated its statutory authority to adopt the proposed rules.

3. The Board, by an affirmative presentation of facts, has demonstrated the need for and reasonableness of all the proposed rules, except EDU 765 C, as noted in Finding #35.

RECOMMENDATION

The Hearing Examiner recommends that Minn. Rule EDU 765 C be deleted and that, so modified, the proposed rules be adopted.

Dated this 20th day of January, 1977.

STEVE M. MIHALCHICK
Hearing Examiner

STATE OF MINNESOTA
COUNTY OF RAMSEY

BEFORE STEVE M. MIHALCHICK
HEARING EXAMINER
OFFICE OF HEARING EXAMINER

In the matter of the proposed adoption of Rules of the State Board of Education amending "Minnesota Administrative Rules and Regulations of the State Board of Education," 1973 Edition and as amended in 1974.

FINDING OF FACT

The above-entitled matter came on for hearing before Steve M. Mihalchick, Hearing Examiner of the Office of Hearing Examiner of the State of Minnesota on the 21st day of October, 1976, in the State Office Building, St. Paul, Minnesota 55155 after proper notice required by Minnesota Statutes, Section 15.0412 was served upon all persons, associations and other interested groups registered with the Secretary of State for that purpose.

After affording interested persons an opportunity to present written and oral data, statements, and arguments, having reviewed all of the testimony, having considered all the evidence adduced, having considered the Report of the Hearing Examiner, and upon all of the testimony and proceedings herein, and applicable statutory standards or criteria, having withheld action on the proposed Rules for the required period of time after receipt of the Hearing Examiner's Findings and having confirmed the need for the above - captioned rules I find the following:

1. That the findings of fact of the Hearing Examiner accurately reflect the facts in the record.

2. That the deletion recommended by the Hearing Examiner with respect to EDU 765C will result in the proposed rules being more specific and less subject to misinterpretation.

STATE OF MINNESOTA
STATE BOARD OF EDUCATION

Howard B. Casmey
Commissioner
State Department of Education

CERTIFICATE OF BOARD'S
AUTHORIZING RESOLUTION

I, Howard B. Casmey, do hereby certify that I am secretary of the state board of education, a board duly authorized under the laws of the State of Minnesota, and that the following is true, complete, and correct copy of a resolution adopted at a meeting of the state board of education duly and properly called and held on the 3rd day of August 1976; that a quorum was present at said meeting; and that a majority of those present voted for the resolution; that said resolution is set forth in the minutes of said meeting and has not been rescinded or modified.

> RESOLVED, that the State Board of Education shall call a hearing for the purpose of informing the public concerning proposed rules of the Board governing financial accounting reporting requirements for Minnesota school districts; and that the Commissioner or his Deputy is authorized to sign an order and notice of such hearing to be conducted under rules of the board.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 2nd day of September, 1976.

Howard B. Casmey
Secretary, State Board of Education

Dorothea M Chelgren
Member, State Board of Education

STATE OF MINNESOTA
COUNTY OF RAMSEY

BEFORE STEVE M. MIHALCHICK
HEARING EXAMINER
OFFICE OF HEARING EXAMINER

In the matter of the proposed adoption of Rules of the State Board of Education amending "Minnesota Administrative Rules and Regulations of the State Board of Education," 1973 Edition and as amended in 1974.

ORDER ADOPTING RECOMMENDATION OF HEARING EXAMINER AND RULES

The above-entitled matter came on for hearing before Steve M. Mihalchick, Hearing Examiner of the Office of Hearing Examiner of the State of Minnesota on the 21st day of October, 1976, in the State Office Building, St. Paul, Minnesota 55155 after proper notice required by Minnesota Statutes, Section 15.0412 was served upon all persons, associations and other interested groups registered with the Secretary of State for that purpose.

After affording interested persons an opportunity to present written and oral data, statements, and arguments, having reviewed all of the testimony, having considered all the evidence adduced, having considered the Report of the Hearing Examiner, and upon all of the testimony and proceedings herein, and applicable statutory standards or criteria, having withheld action on the proposed Rules for the required period of time after receipt of the Hearing Examiner's Findings and having confirmed the need for the above - captioned rules.

NOW THEREFORE, BE IT RESOLVED that the State Board of Education hereby adopts and incorporates herein the Report of Hearing Examiner dated January 20, 1977, relative to the above - entitled matters to wit:

EDU 765 Amendment.

A. No change.

B. No change.

C. ~~Financial information maybe requested by the Commissioner from the districts on a one-time basis notwithstanding this chapter if necessary to fulfill a request of the executive, the legislature, the U.S. Office of Education, or any agency having a legislative requirement for such legislation.~~

THEREFORE, IT IS ORDERED that the Rules identified as Edu 760-779 are adopted this 15th day of February, 1977, pursuant to authority vested in us by Laws 1976, Chapter 271, Section 27.

STATE OF MINNESOTA
STATE BOARD OF EDUCATION

Lorin Gasterland

Lorin Gasterland
President
State Board of Education

STATEMENT OF COMPLIANCE WITH

MANUAL OF RULE MAKING PROCEDURES

I, Special Assistant Attorney General Michael J. Bradley, do hereby declare that I have examined the proposed rules and all related documents and that, based on them and my personal familiarity with the applicable procedures, the Manual of Rule Making Procedures has been followed. Any exceptions are noted below.

Michael J. Bradley

Special Assistant Attorney General

Dated: March 15, 1977.