

Minnesota Attorney General: Administrative Rules Proceedings

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Version 3
August 20, 2018

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Michael J. Bradley
Special Assistant Attorney General
Education

10/5/77

- EDU 44; EDU 760-779

ADMIN 1000

STATE OF MINNESOTA

DEPARTMENT ATTORNEY GENERAL

Office Memorandum

TO : Michael B. Miller
Special Assistant Attorney General

DATE: September 1, 1977

FROM : Michael J. Bradley MJB
Special Assistant Attorney General

PHONE: 6-3301

SUBJECT: ADOPTION OF RULES BY DEPARTMENT OF EDUCATION:
EDU 44 - Length of School Day
CH. 38 - Financial Accounting Reporting Requirements
§ 1.0764 through § 1.0769 (EDU 760-779)

In accordance with the Attorney General's Rule Making Procedure, we are forwarding two sets of the documents necessary for the correct promulgation of rules. It is our understanding that only two sets are now required. If this is not true, please call us at 6-3301.

MJB:li

Attach.

Request just set ?

RECEIVED
SEP 01 1977
Dept. of Administration

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing the length of school day and rules for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt.

ORDER FOR HEARING

IT IS HEREBY ORDERED that a public hearing on the above - captioned rules be held in the Capitol Square Building, Room 716, St. Paul, Minnesota on Thursday, June 2, 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

Commissioner of Education

Date: April 11, 1977

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing the length of school day and rules for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt.

NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that a public hearing in the above-entitled matter will be held in the Capitol Square Building, Room 716, St. Paul, Minnesota, on Thursday, June 2, 1977, commencing at 9:00 A.M. for the length of school day and 10:00 A.M. for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt, 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.

A copy of the proposed rules EDU 44 and EDU 760-779 are 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, 121.11 and 121.94. 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.

Please be advised that Minn. Stat. Ch. 10A, requires each lobbyist to register with the Ethical Practices Board within five days after he commences lobbying. Lobbying includes attempting to influence rule making by communicating or urging others to communicate with public officials. A lobbyist is generally any individual who spends more than $250 per year for lobbying or any individual who is engaged for pay or authorized to spend money by another individual or association and who spends more than $250 per year or five hours per month at lobbying. The statute provides certain exceptions. Questions should be directed to the Ethical Practices Board, 41 State Office Building, St. Paul, Minnesota 55155, phone (612) 296-5615.

STATE OF MINNESOTA
Department of Education

Commissioner of Education

April 11, 1977

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing the length of school day and rules for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt for Minnesota school districts.

AFFIDAVIT OF RECEIPT OF SECRETARY OF STATE'S LIST

Carol DeZeeuw, being duly sworn on oath deposes and says:

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

2) That on the 12th day of April, She 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 Minn. Stat. § 15.0412.

3) That on the 18th day of April, in response to the above request, the Secretary of State provided h__ with such a list, a copy of which is attached hereto and incorporated by reference.

Further affiant sayeth not.

Carol DeZeeuw

Subscribed and sworn to before me

this 18th day of April

19 77

Beatrice Schloesser

BEATRICE SCHLOESSER
Notary Public, Ramsey Co., Minn.
My Commission Expires
May 11, 1983

Notary Public

Ramsey County, Minnesota

My Commission expires May 11, 1983

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing the length of school day and rules for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt for Minnesota school districts.

CERTIFICATE OF DELIVERY
SECRETARY OF STATE LIST

I hereby certify that the attached 9 (506 labels *) sheets constitute the complete list of persons, associations, and other interested groups who as of 1:15 o'clock pm, this 18th day of April, 1977, 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 Ceil Dorn

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing the length of school day and rules for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt.

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STATE OF MINNESOTA
Department of Education

Commissioner of Education

April 11, 1977

Rules as Proposed

Chapter Three: Classification for State Aids,

Special Requirements for Secondary Schools

EDU 44 Length of school day. In all classified secondary schools, the minimum length of the school day for each pupil, exclusive of the noon intermission, shall be six hours. [Community-based program may be approved as all or part of the school day by the state board. Employment-related community-based programs shall be supervised through the vocational-technical division, and non-employment-related community-based programs shall be supervised through the division of instruction.]

Exceptions to the six hour day may be made as follows:

A. The state board of education may approve community-based programs for all or part of the school day. Employment related, community-based programs in excess of one hour per day shall be supervised by the vocational-technical division. Non-employment related, community-based programs in excess of one hour per day shall be supervised by the division of instruction.

B. The local board of education may adopt a policy which allows secondary school principals to adjust the length of the school day for individual students provided that:

1. The student is at least 16 years of age;

and

2. The student attends supervised classes in usual school facilities for not less than five hours per day;

and

3. A written record is maintained indicating the type of work-study option or other educational experience to be pursued during the exempted time; and

4. The student's parent has approved the option in writing.

Rules as Proposed

Chapter Thirty-Eight: Financial Accounting

Reporting Requirements

EDU 764 Audited and unaudited financial statements, budgets. 764 A., B., C., and D. remain unchanged.

E. An audit shall be defined as an examination of the various financial statements of the funds and account groups of a school district by the state auditor, an independent certified public accountant, or a public accountant who for the five previous years has been actively engaged exclusively in the practice of public accounting. This examination shall be performed in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants. Audited financial statements shall be defined as those financial statements which have been subjected to audit.

EDU 767 Statutory operating debt.

A. For the fiscal year ending June 30, 1977 and thereafter each district shall prepare a balance sheet as specified in EDU 768.

B. The sum of the unappropriated fund balances for the four operating funds, as defined in EDU 762 B, shall constitute operating debt if such sum is negative.

C. Operating debt shall be defined as "statutory operating debt" if the amount of operating debt exceeds two-and-one-half percent of the expenditures in the operating funds for the year specified in Minn. Stat. § 121.914.

(All following material is new)

D. Statutory operating debt, for which the statutory operating debt levy is to be provided as specified in Minn. Stat. § 275.125, subd. 9a, shall be the statutory operating debt determined as of June 30, 1977.

E. If as of June 30, 1977, the unaudited financial statements submitted to the department show an operating debt in excess of five percent of the expenditures identified in subdivision C or show that it will require more than two years to eliminate such debt pursuant to the statutory operating debt levy, then the district shall be required to levy an additional 1.5 mills on the adjusted assessed valuation of the district and to comply with other provisions of Minn. Stat. § 121.917 and § 275.125, subd. 9a. If subsequently, the audited financial statements show the district had not been in statutory operating debt and was thereby ineligible for such additional levy, the district shall recognize the additional levy as revenue to the general fund deferred one year and shall reduce the following maintenance levy by a like amount.

F. If as of June 30, 1977, the unaudited financial statements submitted to the department show an operating debt of less than five percent of the expenditures identified in subdivision C and show that it will require two years or less to eliminate such debt pursuant to the statutory operating debt levy, the department shall require a reexamination of the financial statements and a redetermination of operating debt. The district shall request and utilize the services of a regional accounting coordinator, a representative of the appropriate regional service agency or a representative of the department of education to assist in this reexamination and redetermination. Upon completion the district shall re-certify the financial statements as to their accuracy and compliance with this chapter and with Minn. Stat. § 121.914. If a statutory operating debt levy is authorized and subsequently the audited financial statements show the district was not in statutory operating debt and was therefore ineligible for such additional levy, the procedure in EDU 767E is to be followed. If a statutory operating debt levy is not authorized and subsequently the audited financial

statements show the district was in statutory operating debt and was therefore eligible for the additional levy, the district shall make up the levy deficiency.

G. If as of June 30, 1977, the unaudited financial statements show no operating debt, there shall be no verification procedure required for statutory operating debt. If subsequently, the audited financial statements show the district was in statutory operating debt and was thereby eligible for the additional levy, the district shall make up the levy deficiency.

H. Prior to June 30, 1979, the commissioner may, on the basis of the audited financial statements submitted by a district to the department, pursuant to Minn. Stat. § 121.914, subd. 5, adjust the total amount of statutory operating debt of the district, determined as of June 30, 1977.

I. The commissioner shall not be required to certify a levy for statutory operating debt in 1977 if the unaudited financial statements for the preceding fiscal year are not submitted by August 15. If subsequently, the audited financial statements show that the district was in statutory operating debt and was therefore eligible for an additional levy, the district shall make up the levy deficiency.

EDU 768 Balance sheet.

A. A balance sheet shall be prepared for each of the operating and the non-operating funds and for all funds combined as of June 30th. The balance sheet shall specify assets, liabilities, encumbrances outstanding, appropriated fund balances and unappropriated fund balances.

B. Assets.

1. The total assets shall be reported in at least the following categories:

a. Cash and investments

b. Taxes receivable

c. Accounts and interest receivable

d. Due from other funds

e. Due from other Minnesota school districts

f. Due from other governmental units

g. Inventory

h. Prepaid expenses and deposits

i. Other

2. Cash shall include amounts on deposit in officially designated depositories, undeposited cash, petty cash, interest bearing accounts, change funds, travel advance funds and cash with fiscal agents. Investments shall include investments in securities, commercial certificates of deposit or obligations of various governments.

3. Taxes receivable include the unreceived portion of current real and property tax levies including mobile home taxes, plus delinquent and non-property taxes receivable less an allowance for uncollectible taxes. The allowance for uncollectible taxes must be an estimate of taxes that will not be collected within six years.

4. Accounts receivable include all amounts due the district from outside sources other than taxes and amounts from other governmental agencies. Interest receivable is the amount of interest earned but not received on outstanding investments. Where investments have not matured, the interest shall be prorated to that year in proportion to the term of the investment occurring in that year. Interest shall be apportioned to the funds for their general purposes and not to accounts within a fund. The two approved methods for treating investment income are the equity method and the average cash balance method. For ease of handling, the average cash balance method may be used. Any other equitable method may be approved by the state auditor.

Any funds with a negative (deficit) average monthly balance shall be assessed an interest charge.

5. Due from other Minnesota school district includes amounts due from all districts as defined in EDU 760.

6. Inventories shall represent only amounts of supplies and materials which have not been expensed. The amount of inventories which have been expensed but are available for use in a subsequent year may be footnoted to the report. Such amount shall be determined by the district in a manner consistent from year to year.

The inventory figure reported on the balance sheet must have supporting documentation. This supporting documentation may take the form of a fiscal year end physical count and/or perpetual inventory records.

7. Prepaid expenses and deposits represent amounts paid for benefits or goods not yet received. Whenever a district normally expenses supplies and materials at the time of purchase, it may treat as a prepaid expense an extraordinary purchase, whenever the amount is specific, the purchase is clearly identified for future use, and the amount of the purchase is to be expensed in a future fiscal year.

C. Liabilities.

1. The total liabilities shall be reported in at least the following categories:

a. Salaries and wages payable

b. Short-term indebtedness

c. Due to other funds

d. Due to other Minnesota school districts

e. Due to other governmental units

f. Claims and judgments payable

g. Accounts and contracts payable, interest payable, payroll deductions and employer contributions payable

h. Property taxes levied for the subsequent year's expenditures

i. Deferred revenue

j. Other

2. Salaries and wages payable are amounts owed for personal services performed but not paid. This category does not include separation, sick or vacation pay since these and other similar employee benefits shall be expensed on a current basis.

3. Short-term indebtedness includes outstanding certificates of indebtedness and orders not paid for want of funds.

4. Property taxes levied for the subsequent year's expenditure shall be the amount, including abatements and portions to be assumed by the state, certified to the county auditor.

5. Revenues collected in advance of June 30 but not earned in the following year are deferred revenues.

6. Amounts due to other Minnesota school districts and other governmental units includes amounts due to all districts as defined in EDU 760.

7. Claims payable include losses incurred for which claims have not been paid. This category includes estimates of expenditures for losses which have occurred in the current period but for which payments have not been made or claims have not been filed.

Administrative awards, made against a district by a state or federal agency, which are not on appeal are included if unpaid.

8. Accounts and contracts payable are amounts due for goods received or services rendered.

Payroll deductions and employer contributions include amounts already expensed to appropriate accounts which are temporarily held until they are required to be transmitted.

D. Encumbrances outstanding.

Encumbrances outstanding include all board commitments supported by itemized purchase orders issued to outside vendors based on firm prices, provided that these expenditures have been budgeted in the current or prior year. This category does not include amounts that are set up as liabilities or amounts for personal services to be performed by a district employee.

E. Appropriated fund balances.

1. Appropriated fund balances represent available resources dedicated by law for specified purposes. These balances include amounts appropriated for:

a. Unemployment insurance

b. Bus purchases

c. Severance pay

d. Reserve for reduction of statutory operating debt

e. Building construction

2. Each of these appropriated fund balances must involve an accounting subsystem which is a part of, or an adjunct to, the overall accounting system. The amounts may be either negative or positive.

F. Unappropriated fund balances.

The unappropriated fund balance is equal to the assets less the sum of the liabilities, encumbrances outstanding and appropriate fund balances. The unappropriated fund balance represents amounts that may be expended in the future for the operation of that fund.

EDU 769 Balance sheet account groups.

A. A balance sheet shall be prepared for the general fixed asset and general long term debt groups of accounts as of June 30.

B. General fixed assets.

General fixed assets shall be carried in the books of the district at purchase price or at appraised value at date of acquisition if the property is donated. General fixed asset accounts include land, land improvements, buildings, equipment, allowances for depreciation, construction work in progress and investments in general fixed assets.

C. General long-term debt.

General long-term debt accounts include amounts available and amounts to be provided for outstanding bonds, state loans payable and separation and severance pay.

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the state board of education governing the length of school day and rules for school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt.

AFFIDAVIT OF MAILING

Linda Alberg, being first duly sworn, deposes and says:

That on the 27th day of April, 19 77, at the City of St. Paul, County of Ramsey, State of Minnesota, he served the attached Notice of Hearing by depositing in the United States mail at said City of St. Paul, a true and correct copy thereof, properly enveloped, with postage prepaid, to all persons and associations at the addresses listed on the attached Certificate of the Secretary of State.

Linda Alberg

Subscribed and sworn to before me
this 27th day of April,
1977.

Betty R. King

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

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed change of a rule of the state board of education governing the length of the school day for secondary education students.

STATEMENT OF NEED

According to M.S. 121.11; Subd. 3 (2) The state board may formulate such rules as may be necessary for establishing, maintaining, and administering such school areas. EDU 44 is the State Board rule that stipulates the length of the secondary school day. The present wording of the rule states that the length of the school day for each student shall be six hours excluding the noon lunch period. Provisions are also made in the rule for approved community based programs for being all or a part of a student's day. The need for the change in this rule is that it is our belief that the present language of the rule is too restrictive. There are students who cannot profit from a period as long as a six hour day. Also, there are situations where the determination for variations in the length of the school day could be better made by the local administrator to meet variable conditions.

STATEMENT OF NEED

The Rules As Proposed

General Comments

In the 1976 legislative session, the uniform financial accounting and reporting standards were enacted in the Education Omnibus Bill. Minnesota Statutes 121.902 mandates that uniform financial accounting and reporting standards shall be adopted pursuant to Chapter 15 hearings. Also included as part of this legislation was Minnesota Statutes 121.914, Subdivision 2 which mandates that the Commissioner shall establish a uniform auditing or other verification procedure for school districts to determine whether a statutory operating debt exists in any Minnesota school district as of June 30, 1977. This procedure shall also identify all interfund transfers made during fiscal year 1977 from a fund included in computing statutory operating debt to a fund not included in computing statutory operating debt. The standards for this procedure shall also be promulgated by the state board pursuant to Chapter 15. That is the purpose of this rules proposal. The advisory council on uniform financial accounting and reporting standards has adopted the proposed rules which it recommended to the state board. The proposal is being considered because of its adoption by the state board.

There are general authorizations which must be subsumed throughout. For the department of education, Minnesota Statutes 121.11, Subdivision 5 has been the broad authority for requiring a uniform system of records and of accounting by school districts. The state auditor has the 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 under Minnesota Statutes 6.65. These general authorizations are incorporated in specifics mandated under the UFARS laws.

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 Government 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. The original UFARS rules (EDU 760-799) were justified in terms of generally accepted accounting principles and the acceptability of the practices to the accounting society, the accounting profession, the state auditor and the state department of education speaking for itself and office of education in the United States department of health, education and welfare. The new rules proposed constitute an extension of those standards and reports and also address the statutory operating debt provision of the UFARS law.

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.

Justification Comments

EDU 764 E. This provision is provided to define the difference between audited and unaudited financial statements. Minnesota Statutes 6.64 and 412.222 provide the basis of who can perform an audit. It further distinguishes the annual financial report which is an unaudited financial statements and the audited financial statements.

EDU 767. This rule proposed is in support of Minnesota Statutes 121.914. Sections A., B., C. and D. and provides a clear definition of what is constituted as statutory operating debt and what balances on the balance sheet are to be considered in the calculation. These sections also specify, as the law does, that statutory operating debt for which a levy can be obtained is that determined as of June 30, 1977. Sections E., F. and G. contain the procedures of setting up a review of operating debt or statutory operating debt as reported in the unaudited financial statements. The law provided that either an audit could be required or a reexamination be made. (Minnesota Statutes 121.914, Subdivision 2) Since an audit is required as of June 30th of each year, it seems to be fiscally irresponsible to require an audit before the October 10th levy certification. Furthermore, it would place unreasonable workload requirements on auditors. An early audit is not necessary because if an error is made in conclusion it is remedial within a year. Through the power of the Commissioner to correct levies, it is possible to restore a district to the position it would have been had the error not been made. These correction procedures are provided in sections E., F. and G. in support of Minnesota Statutes 275.125, Subdivision 10. Finally, it is maintained that reexamination will not be necessary in the nearly four hundred fifty cases that financial statements are prepared. Most districts are clearly in or clearly out of operating debt so that there need be no reexamination. District whose statements require reexamination are provided the review process at no additional cost.

The UFARS council determined that a reasonable level of making a conclusion whether statutory operating debt was or was not present was a two-and-one-half-percent expenditure range above and below the two-and-one-half-percent operating debt threshold for determining statutory operating debt. This is the range where it is most likely that an error in conclusion could be arrived at. Regardless of the determination and reexamination, it is still possible to make an error, just as it is where such reexamination is not made. Again, this is remedied by procedures available within the state department of education.

EDU 767 H. At this point in time, audited financial statements for the years ending June 30, 1977 and June 30, 1978 will be available for review to determine if any errors have been made. (Minnesota Statutes 121.914, Subdivision 5)

EDU 767 I. The rules and law require that unaudited financial statements are due August 15. (EDU 764 A. and Minnesota Statutes 121.908, Subdivision 2) Due to the short time frame between the August 15th due date of the statements and the October 10th date of certification of levies, it is essential to have timely financial information. This provision provides an incentive for districts to submit their unaudited financial statements on or before the due date. Since the decision is remedial and since the commissioner has a right of redetermining statutory operating debt before June 30, 1979, there is a remedy.

EDU 768 A. The balance sheet is a key management tool that exhibits the financial position of a school district. It is the key to statutory operating debt because the net negative unappropriated fund balance for the operating funds is the numerator for the calculation in determining whether statutory operating exists or not.

The balance sheet principles as presented are consistent with balance sheet preparation principles for governmental subdivisions. It specifies assets, liabilities, encumbrances outstanding, appropriated fund balances and unappropriated fund balances. Appropriated fund balance is relatively a new term signifying what was once termed reserves. This system of identifying the elements of a balance sheet is consistent with requirements of the federal government, the state, the state auditor, the society of certified public accountants and the practices in the industry.

The enumeration of accounts was divided into categories to display only those elements that had to be separated. It is recognized that school districts for their own internal management needs will further subdivide these categories. The balance sheet accounts that support this need are included in Chapter VII of the Manual of Instructions for Uniform Financial Accounting for Minnesota School Districts, 1977 revision. Essentially, similar types of categories are in use or proposed for use in U.S. Department of Health, Education and Welfare, Office of Education, Financial Accounting for Local and State School Systems: Standards Receipt and Expenditure Accounts. 1957, U.S. Department of Health, Education and Welfare, office of education, Financial Accounting: Classification and Standard Terminology for Local and State School Systems. 1973, and State of Minnesota, Department of Education, Manual for the Uniform Financial Accounting and Reporting System for Minnesota Schools, 1975. These are the only groups of accounts that are required for reporting to the state and subsequently to the federal government. They provide the sum total of the required information.

EDU 768 B. The asset items clearly distinguish between cash assets and non-cash assets. The proposed asset items permit the preparation of a consolidated report for a district or for all districts.

For these items very specific definitions are included so that uniform reporting will be accomplished. These definitions are consistent with generally accepted accounting principles and are uniformly acceptable throughout the industry. Where there are alternative accounting and reporting methods of obtaining amounts, an acceptable method was adopted to insure uniformity in reporting.

EDU 768 C. The proposed liability classifications permit the preparation of a consolidated report for a district or for all districts. Once again, these are the absolute minimum number of classifications required for reporting. For these items very specific difinitions are included so that uniform reporting will be accomplished. These definitions are consistent with generally accepted accounting principles and are uniformly acceptable throughout the industry.

EDU 768 D. This provision defines one of the items unique to governmental accounting. The necessity of definition is to make the term uniform and consistent for accounting and reporting requirements. The definition is very specific so as to disallow abusive accounting treatments.

EDU 768 E. This definition clearly identifies categories for which dedicated resources must be maintained. This segregation is required since the financial condition of this portion of the fund balances can not be considered for the purpose of establishing statutory operating debt or for financing future operations of that fund.

EDU 768 F. The unappropriated fund balance is the indicator of availability of resources for the general purpose of that fund. This definition clearly identifies for management puposes the realitive financial health of the district. If this portion of the combined fund balances for the operating funds is negative, an operating debt can be identified.

EDU 769 A., B. and C. The balance sheet account groups specified in this provision are not required for statutory operating debt determination. (EDU 764 A. 2.) However, for reporting purposes they are essential for full disclosure reporting under generally accepted accounting principles.

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed change of a rule of the state board of education governing the length of the school day for secondary education students.

STATEMENT OF 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." The Minnesota Association of Secondary School Principals, with a membership of over 1,000 principals and assistant principals, in their professional judgment, has gone on record of supporting a more flexible wording of EDU 44. The language of the proposed change in this rule has the support of the Minnesota Association of Secondary School Principals. Testimony will be provided at the Public Hearing in support of the proposed change in wording by the following:

1. Vinton Zabel President of the Minnesota Association of Secondary School Principals and Principal of Winthrop High School.

2. Gene Olive Principal Richfield High School.

3. Wally Pretzer Assistant Principal South Jr. High School St. Cloud, MN.

4. David W. Meade Executive Director of the Minnesota Association of Secondary School Principals.

STATE OF MINNESOTA
DEPARTMENT OF EDUCATION

IN THE MATTER OF: The proposed adoption of rules of the State Board of Education governing school district balance sheets, account groups and the verification procedures used in confirming statutory operating debt.

STATEMENT OF EVIDENCE

In addition to the "Statement of Need" which is available for inspection or purchase at the Office of Hearing Examiner, 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 Minnesota Statutes 121.902 which directs the state board of education to promulgate rules relating to financial accounting and reporting requirements for Minnesota school districts. In addition, the evidence supports Minnesota Statutes 121.914, Subdivision 2 which mandates the establishment of a uniform auditing or other verification procedure for school districts to determine whether a statutory operating debt exists in any Minnesota school district as of June 30, 1977. The statements from experts will identify 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 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 Moir*, Director, School Financial Management Section will provide testimony on the nature of state financial reports, their contrast with audits, the preparation of authorized levies, and the federal reporting requirements.

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.

Larry Shomion, Senior Auditor, Office of the State Auditor, will provide testimony on the Manual of Instructions for Uniform Financial Accounting for Minnesota School Districts, 1977 revision.

School District Personnel

Donald Klassy*, Manager of Fiscal Affairs, Osseo Independent School District 279, Chairman of the UFARS Advisory Council, will provide testimony highlighting asset, liability, and fund balance accounting for school districts', application of modified accrual concepts consistent with generally accepted accounting principles.

Don Wahlund*, Director of Finance, Minneapolis Public Schools, will provide testimony on the development of the statutory operating debt concepts.

Other Public Agencies

Warren Tester, Region III, Regional Accounting Coordinator, will provide testimony about training given school district personnel to implement accounting concepts.

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.

*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.

State of Minnesota, Department of Education, Manual of Instructions for Uniform Financial Accounting for Minnesota School Districts. St. Paul, Minnesota Department of Education, 1977.

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

Ron Moir, Financial Accounting Instructions - 4, October 29, 1976.

Ron Moir, Financial Accounting Instructions - 5, February 7, 1977.

Ron Moir, Financial Accounting Instructions - 6, February 23, 1977.

Ron Moir, Financial Accounting Instructions - 7, April 1, 1977.

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

We will be citing the following statutes:

Minn. Stat. 6.47
Minn. Stat. 6.64
Minn. Stat. 6.65
Minn. Stat. 121.11 Subd. 5
Minn. Stat. 121.902
Minn. Stat. 121.908 Subd. 2
Minn. Stat. 121.914
Minn. Stat. 121.917
Minn. Stat. 275.125 Subd. 9a
Minn. Stat. 275.125 Subd. 10
Minn. Stat. 412.222

EDU 760 - 799

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
Governing the Length of the School Day.

FINDINGS 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 2nd day of June, 1977, in Room 716 of the Capitol Square Building, St. Paul, Minnesota 55101 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 suggested change recommended by the Hearing Examiner with respect to B.3. will result in the proposed Rules being more specific and less subject to misinterpretation.

STATE OF MINNESOTA
STATE BOARD OF EDUCATION

for Howard B. Casmey
Commissioner
State Department 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 for School District Balance Sheets, Account Groups, and the Verification Procedures used in Confirming Operating Debt

FINDING OF FACT AND ORDER ADOPTING RECOMMENDATION OF HEARING EXAMINER AND RULES

The above-entitled matter came on for hearing on June 2, 1977, at St. Paul, Minnesota before Steve M. Mihalchick, Hearing Examiner appointed by the Chief Hearing Examiner 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 Hearings Examiner's Findings and having confirmed the need for the above captioned rules, we find that the findings of fact of the Hearing Examiner accurately reflect the facts in the record.

NOW THEREFORE, BE IT RESOLVED that the State Board of Education hereby adopts and incorporates herein the Report of Hearing Examiner dated June 24, 1977 relative to the above - entitled matters to wit:

§ 1.0764 Audited and unaudited financial statements, budgets.

E. An audit shall be defined as an examination of the various financial statements of the funds and account groups of a school district by the state auditor, an independent certified public accountant, or a public accountant who for the five previous years has been actively engaged exclusively in the practice of public accounting. This examination shall be performed in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants. Audited financial statements shall be defined as those financial statements which have been ~~subject-to-audit.~~ examined pursuant to an audit.

§ 1.0767 Statutory operating debt.

A. No change.
B. No change.
C. No change.
D. No change.

~~E.--If-as-of-June-30,-1977,-the-unaudited-financial-statements-submitted-to-the department-show-an-operating-debt-in-excess-of-five-percent-of-the-expenditures identified-in-subdivision-C-or-show-that-it-will-require-more-than-two-years-to eliminate-such-debt-pursuant-to-the-statutory-operating-debt-levy,-then-the-district shall-be-required-to-levy-an-additional-1.5-mills-on-the-adjusted-assessed-valuation of-the-district-and-to-comply-with-other-provisions-of-Minn.-Stat.-§-121.917-and §-275.125,-subd.-9a.--If-subsequently,-the-audited-financial-statements-show-the district-had-not-been-in-statutory-operating-debt-and-was-thereby-ineligible-for~~

~~such additional levy, the district shall recognize the additional levy as revenue to the general fund deferred one year and shall reduce the following maintenance levy by a like amount.~~

~~F. If as of June 30, 1977, the unaudited financial statements submitted to the department show an operating debt of less than five percent of the expenditures identified in subdivision 6 and show that it will require two years or less to eliminate such debt pursuant to the statutory operating debt levy, the department shall require a reexamination of the financial statements and a redetermination of operating debt. The district shall request and utilize the services of a regional accounting coordinator, a representative of the appropriate regional service agency or a representative of the department of education to assist in this re-examination and redetermination. Upon completion the district shall recertify the financial statements as to their accuracy and compliance with this chapter and with Minn. Stat. § 121.914. If a statutory operating debt levy is authorized and subsequently the audited financial statements show the district was not in statutory operating debt and was therefore ineligible for such additional levy, the procedure in § 1.0767E is to be followed. If a statutory operating debt levy is not authorized and subsequently the audited financial statements show the district was in statutory operating debt and was therefore eligible for the additional levy, the district shall make up the levy deficiency.~~

~~G. If as of June 30, 1977, the unaudited financial statements show no operating debt, there shall be no verification procedure required for statutory operating debt. If subsequently, the audited financial statements show the district was in statutory operating debt and was thereby eligible for the additional levy, the district shall make up the levy deficiency.~~

~~H.~~ E. Prior to June 30, 1979, the commissioner may, on the basis of the audited financial statements submitted by a district to the department, pursuant to Minn. Stat. § 121.914, subd. 5, adjust the total amount of statutory operating debt of the district, determined as of June 30, 1977.

~~I. The commissioner shall not be required to certify a levy for statutory operating debt in 1977 if the unaudited financial statements for the preceding fiscal year are not submitted by August 15. If subsequently, the audited financial statements show that the district was in statutory operating debt and was therefore eligible for an additional levy, the district shall make up the levy deficiency.~~

§ 1.0768 Balance sheet. funds.

A. No change.
B.1. No change.
B.2. Cash shall include amounts on deposit in officially designated depositories, undeposited cash, petty cash, interest bearing accounts, change funds, travel advance funds and cash with fiscal agents. Investments shall include investments in securities, commercial certificates of deposit or obligations of various governments. governmental agencies.

B.3. No change.
B.4. No change.
B.5. No change.
B.6. No change.
B.7. No change.
C.1. No change.

C.2. No change.
C.3. No change.

6. 4. Amounts due to other Minnesota school districts and other governmental units includes amounts due to all districts as defined in § 1.0760.

7. 5. Claims payable include losses incurred for which claims have not been paid. This category includes estimates of expenditures for losses which have occurred in the current period but for which payments have not been made or claims have not been filed.

Administrative awards, made against a district by a state or federal agency, which are not on appeal are included if unpaid.

8. 6. Accounts and contracts payable are amounts due for goods received or services rendered.

Payroll deductions and employer contributions include amounts already expensed to appropriate accounts which are temporarily held until they are required to be transmitted.

4. 7. Property taxes levied for the subsequent year's expenditure shall be the amount, including abatements and portions to be assumed by the state, certified to the county auditor.

5. 8. Revenues collected in advance of June 30 but not earned ~~in the~~ until a following year are deferred revenues.

D. No change.
E. No change.

F. Unappropriated fund balances.
The unappropriated fund balance is equal to the assets less the sum of the liabilities, encumbrances outstanding and ~~appropriate~~ appropriated fund balances. The unappropriated fund balance represents amounts that may be expended in the future for the operation of that fund.

THEREFORE, IT IS ORDERED that the rules identified as § 1.0764 and §§ 1.0767 - 1.0769 are adopted this 1st day of August, 1977, pursuant to authority vested in us by Minn. Stat., § 121.902, subd. 1.

STATE OF MINNESOTA
STATE BOARD OF EDUCATION

Lorin Gasterland
Lorin Gasterland
President
State Board 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 11th day of April, 1977; 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 the length of school day and rules for school district balance sheets, account groups, and the verification procedures used in confirming statutory operating debt; 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 11th day of April, 1977.

Howard B. Casmey
Secretary, State Board of Education

Lorin A. Gustesons
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
Governing the Length of the School Day.

ORDER ADOPTING RECOMMENDATION
OF HEARING EXAMINER AND RULES

The above-entitled matter came on for hearing before Hearing Examiner Steve M. Mihalchick of the Minnesota Office of Hearing Examiner at 9:00 a.m. on Thursday, June 2, 1977, in Room 716 of the Capitol Square Building, St. Paul, Minnesota 55101, 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 June 24, 1977, relative to the above-entitled matters and the findings of fact of Howard B. Casmey, Commissioner of Education, as follows:

> EDU 44, B.3. A ~~written record is maintained indicating the type of work-study option or other educational experience to be pursued during the exempted time;~~ The secondary school principal must design for each student exempted from the six hour requirement a work-study option or other non-work experience of real educational value. The secondary school principal shall ensure that the educational program is actually pursued. A written record must be maintained indicating the type of work-study option or other educational experience to be pursued, the reason for the exemption, and the method of ensuring that the program is actually pursued.

THEREFORE, IT IS ORDERED that the Rules identified as EDU 44 are adopted this First day of August, 1977 pursuant to authority vested in us by Laws 1976, Chapter 271, Section 27.

STATE OF MINNESOTA
STATE BOARD OF EDUCATION

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: Sept 1, 1977

Rule as Adopted

Chapter Thirty-Eight: Financial Accounting Reporting Requirements

§ 1.0764 Audited and unaudited financial statements, budgets. § 1.0764 A., B., C., and D. remain unchanged.

E. An audit shall be defined as an examination of the various financial statements of the funds and account groups of a school district by the state auditor, an independent certified public accountant, or a public accountant who for the five previous years has been actively engaged exclusively in the practice of public accounting. This examination shall be performed in accordance with generally accepted auditing standards as promulgated by the American Institute of Certified Public Accountants. Audited financial statements shall be defined as those financial statements which have been [[subjected to audit.]] examined pursuant to an audit.

§ 1.0767 Statutory operating debt. § 1.0767 A., B., C., and D. remain unchanged.

[[E. If as of June 30, 1977, the unaudited financial statements submitted to the department show an operating debt in excess of five percent of the expenditures identified in subdivision C or show that it will require more than two years to eliminate such debt pursuant to the statutory operating debt levy, then the district shall be required to levy an additional 1.5 mills on the adjusted assessed valuation of the district and to comply with other provisions of Minn. Stat. § 121.917 and § 275.125, subd. 9a. If subsequently, the audited financial statements show the district had not been

in statutory operating debt and was thereby ineligible for such additional levy, the district shall recognize the additional levy as revenue to the general fund deferred one year and shall reduce the following maintenance levy by a like amount.]]

[[F. If as of June 30, 1977, the unaudited financial statements submitted to the department show an operating debt of less than five percent of the expenditures identified in subdivision C and show that it will require two years or less to eliminate such debt pursuant to the statutory operating debt levy, the department shall require a reexamination of the financial statements and redetermination of operating debt. The district shall request and utilize the services of a regional accounting coordinator, a representative of the appropriate regional service agency or a representative of the department of education to assist in this reexamination and redetermination. Upon completion the district shall recertify the financial statements as to their accuracy and compliance with this chapter and with Minn. Stat. § 121.914. If a statutory operating debt levy is authorized and subsequently the audited financial statements show the district was not in statutory operating debt and was therefore ineligible for such additional levy, the procedure in § 1.0767E is to be followed. If a statutory operating debt levy is not authorized and subsequently the audited financial statements show the district was in statutory operating debt and was therefore eligible for the additional levy, the district shall make up the levy deficiency.]]

[[G. If as of June 30, 1977, the unaudited financial statements show no operating debt, there shall be no verification procedure required for statutory operating debt. If subsequently, the audited financial statements show the district was in statutory operating debt and was thereby eligible for the additional levy, the district shall make up the levy deficiency.

E. [[H.]] Prior to June 30, 1979, the commissioner may, on the basis

of the audited financial statements submitted by a district to the department, pursuant to Minn. Stat. § 121.914, subd. 5, adjust the total amount of statutory operating debt of the district, determined as of June 30, 1977.

[[I. The commissioner shall not be required to certify a levy for statutory operating debt in 1977 if the unaudited financial statements for the preceding fiscal year are not submitted by August 15. If subsequently, the audited financial statements show that the district was in statutory operating debt and was therefore eligible for an additional levy, the district shall make up the levy deficiency.]]

§ 1.0768 Balance sheet [[.]] funds. § 1.0768 A., B.1, B.3, B.4, B.5, B.6, B.7, C.1, C.2, C.3, D., and E. remain unchanged.

B. Assets.

2. Cash shall include amounts on deposit in officially designated depositories, undeposited cash, petty cash, interest bearing accounts, change funds, travel advance funds and cash with fiscal agents. Investments shall include investments in securities, commercial certificates of deposit or obligations of various [[governments.]] governmental agencies.

C. Liabilities.

4. [[6.]] Amounts due to other Minnesota school districts and other governmental units includes amounts due to all districts as defined in § 1.0760.

5.[[7.]]Claims payable include losses incurred for which claims have not been paid. This category includes estimates of expenditures for losses which have occurred in the current period but for which payments have not been made or claims have not been filed.

Administrative awards, made against a district by a state or federal agency, which are not on appeal are included if unpaid.

6. [[8.]] Accounts and contracts payable are amounts due for goods

received or services rendered.

Payroll deductions and employer contributions include amounts already expensed to appropriate accounts which are temporarily held until they are required to be transmitted.

7. [[4.]] Property taxes levied for the subsequent year's expenditure shall be the amount, including abatements and portions to be assumed by the state, certified to the county auditor.

8. [[5.]] Revenues collected in advance of June 30 but not earned [[in the]]until a following year are deferred revenues.

F. Unappropriated fund balances.

The unappropriated fund balance is equal to the assets less the sum of the liabilities, encumbrances outstanding and [[appropriate]] appropriated fund balances. The unappropriated fund balance represents amounts that may be expended in the future for the operation of that fund.

§ 1.0769 Unchanged.

Rules as Adopted

Chapter Three: Classification for State Aids, Special Requirements for Secondary Schools

The rules published in the State Register, Vol. 1, No. 42, p. 1539, April 25, 1976 (1 S. R. 1539), are adopted and are identical in every respect to their proposed form with the following amendments:

EDU 44 Length of school day.

B. 3. [[A written record is maintained indicating the type of work-study option or other educational experience to be pursued during the exempted time;]] The secondary school principal must design for each student exempted from the six hour requirement a work-study option or other non-work experience of real educational value. The secondary school principal shall ensure that the educational program is actually pursued. A written record must be maintained indicating the type of work-study option or other educational experience to be pursued, the reason for the exemption, and the method of ensuring that the program is actually pursued.

APPROVED AS TO FORM AND LEGALITY

OCT 4 1977 19

ASSISTANT ATTORNEY GENERAL

/s/ Michael B. Miller

ASSISTANT ATTORNEY GENERAL

STATE OF MINNESOTA
DEPARTMENT OF STATE
FILED
OCT 4 1977
Joan Anderson Growe
Secretary of State
4:05 P.M.