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# **Districts with Statutory Operating Debt**

## **Fiscal Year 2017**

Report to the Legislature

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

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## For more information:

Deb Meier  
Division of School Finance  
Minnesota Department of Education  
1500 Highway 36 West  
Roseville, MN 55113  
(651) 582-8656  
[debra.a.meier@state.mn.us](mailto:debra.a.meier@state.mn.us)  
[education.state.mn.us](http://education.state.mn.us)

As requested by Minnesota Statutes, section 3.197: This report cost approximately \$232.01 to prepare, including staff time, printing and mailing expenses.

*Upon request, this material will be made available in an alternative format such as large print, braille or audio recording.*

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## Legislative Charge

Under Minnesota Statutes, section 123B.81, subdivision 2, a school district or charter school<sup>1</sup> is in Statutory Operating Debt (SOD) when it reports a year-end Net Negative Unreserved General Fund Balance exceeding more than 2 ½ percent of its unreserved/undesignated operating expenditures.

## Introduction

This report is notification to the Legislature of school districts and charter schools in Statutory Operating Debt (SOD), as required by Minnesota Statutes, section 123B.83, subdivision 3, (2016):

*“If a district does not limit its expenditures in accordance with this section, the commissioner may so notify the appropriate committees of the legislature by no later than February 15 of the year following the end of that fiscal year.”*

The information in this report has been compiled from FY 2017 Uniform Financial Accounting and Reporting Standards (UFARS) financial data. All Minnesota school districts and charter schools<sup>2</sup> must report their audited financial data for the previous fiscal year to the Minnesota Department of Education (MDE) by November 30 and submit an audited financial statement to MDE by December 31 (Minn. Stat. § 123B.77, subd. 3).

By January 31 of the following fiscal year, a district/school in SOD and its board of education are required to create and implement a special operating plan which is formally approved through a board resolution and submitted to the commissioner of MDE for approval. SOD plan requirements consist of narratives on the districts/schools current SOD position; budget development and financial management processes; ongoing financial monitoring processes and procedures; special operating plan budget projections and school board resolution. MDE staff members work with school districts and charter schools in preparation of the special operating plan and monitor district/school progress.

**Note:** Effective for FY 2011 and later years, UFARS fund balance account codes were modified to accommodate the implementation of Government Accounting Standards Board (GASB) Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions. Under these new accounting standards, general fund ending balances formerly reported in 422 Unreserved/Undesignated are now classified into one of five categories: 1) Nonspendable, 2) Restricted, 3) Committed, 4) Assigned or 5) Unassigned. The SOD calculation for FY 2015 includes the following fund balance accounts: 418 Committed for Separation/Retirement Benefits; 460 Nonspendable Fund Balance; 461 Committed Fund Balance; 462 Assigned Fund Balance; 464 Restricted Fund Balance; and 422 Unassigned Fund Balance.

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<sup>1</sup>Under Minnesota Statutes, section 124E.16, subdivision 1, charter schools must comply with Minnesota Statutes, section 123B.81.

<sup>2</sup>Under Minnesota Statutes, section 124E.16, subdivision 1, charter schools must comply with Minnesota Statutes, section 123B.77.

## Analysis

There were four active<sup>3</sup> schools in SOD at the close of FY 2017: two independent school districts and two charter schools (Table 1). Fiscal Year 2016 had a total of three independent school districts and two charter schools in SOD status.

One charter school in SOD for FY 2016 was no longer in SOD at the close of FY 2017: Athlos Academy of Saint Cloud #4250.

Among the entities in SOD at the close of FY 2017, two school districts had been in SOD in prior periods: Swanville Public School #486 in FY 2013 – FY 2016, Truman Public School #458 in FY 2006-2011 and FY 2016, and one charter school had been in SOD since FY 2016.

**Table 1: Active School Districts and Charter Schools in SOD at the Close of FY 2017**

Number	Type	Name	Unreserved General Fund Balance	General Fund Expenditures	FY 2016 SOD Calculation	Final UFARS Received	Final Audit Received	FY 2017 SOD Plan Received	Fiscal Years in SOD
458	1	Truman	-715,292	2,756,118	-25.95	X	X	No	Preceding Years 2006-2011 and 2016-2017
486	1	Swanville	-81,132	2,888,690	-2.81	X	X	No	2013-2017
<i>Charter</i>	<i>School</i>								
4226	7	Bdote Learning Center	-131,436	1,765,574	-7.44	X	X	No	2017
4230	7	Minnesota Early Learning Academy	-241,212	2,745,881	-8.78	X	X	No	2016-2017

<sup>3</sup>Fourteen reporting entities had Net Negative Unreserved General Fund Balances in FY 2017. One independent school district closed: Eagle Valley Public School District #2759. Four charter schools closed: FLEX Academy #4235, Freedom Academy Charter #4216, Sankofa (SUN) Academy #4249 and Academy Personal Excellence (APEX) #4251. Four active SOD schools in FY 2017 are listed in Table 1.

## Conclusion

Table 2 illustrates historical data. Since Fiscal Year 2000, Statutory Operating Debt has been calculated using the sum of the Unreserved/Undesignated fund balance accounts of the general fund only. Prior to Fiscal Year 2000, the SOD calculation included food service fund and community service fund balances, as well as statutory reserve accounts in the general fund.

**Table 2: School Districts (Types 1, 2, 3, 6, and 8) and Charter Schools (Type 7)**

**Fiscal Years 1997 through 2017**

**Negative Net Unappropriated Operating Debt and Statutory Operating Debt**

Category	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
School Districts		349	347	346	345	343	343	343	343	343	340	340	340	340	340	340	339	338	336	336	336
Charter Schools		29	40	56	68	82	87	112	134	139	149	156	157	154	154	150	156	157	167	176	169
Total	374	378	387	402	413	425	430	455	477	482	489	496	497	494	494	490	495	495	503	512	505
Net Negative Unappropriated Operating Fund Balance (1,2,4)	29	33	52	56																	
Net Negative Unreserved General Fund Balance				71	69	55	40	32	31	36	44	35	23	20	10	12	17	12	15	16	9
Active Units in Statutory Operating Debt	19	15	31	33	45	40	25	25	24	22	24	17	11	9	8	10	12	11	3	5	4

## Bibliography

Minnesota Department of Education Data Bridge Database for School Year 2016-2017