Management Report

for

Prairie Seeds Academy
Brooklyn Park, Minnesota
June 30, 2012

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Prairie Seeds Academy
Brooklyn Park, Minnesota

We have prepared this management report in conjunction with our audit of Prairie Seeds Academy's (the Academy) financial statements for the year ended June 30, 2012. The purpose of this report is to make certain required communications to those who have responsibility for oversight of the financial reporting process and to provide comments resulting from our audit process. We have organized this report into the following sections:

- Audit Summary
- Basic Funding for Public Education in Minnesota
- Financial Trends of Your Academy
- Accounting and Auditing Updates
- Legislative Summary

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

This report is intended solely for the information and use of those charged with governance, the Board, management, and those who have responsibility for oversight of the financial reporting process and is not intended to be, and should not be, used by anyone other than these specified parties.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

December 21, 2012

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Board, administration, or those charged with governance of the Academy.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND THE U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of and for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Academy's financial statements for the year ended June 30, 2012:

- We have issued an unqualified opinion on the Academy's annual financial statements.
- We reported no deficiencies in the Academy's internal control over financial reporting that we considered to be material weaknesses.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards.*
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- Our opinion on the Academy's compliance with requirements that could have a direct and material effect on each major federal program was qualified due to a reportable instance of noncompliance with federal reporting and eligibility requirements. We also reported deficiencies in the Academy's internal control over compliance that we consider to be significant deficiencies in our testing of major federal programs:
    - The Academy did not keep menus or other information on file to verify nutrition levels of meals served as required for the National School Lunch Program (CFDA No. 10.555) and the School Breakfast Program (CFDA No. 10.553), which support that the children were served an eligible, reimbursable meal.
    - The Academy did not have proper backup documentation for 2 out of 40 applicants we tested for the National School Lunch Program (CFDA No. 10.555) and the School Breakfast Program (CFDA No. 10.553), which determines eligibility for free or reduced price lunches.

- We reported two findings based on our testing of the Academy's compliance with Minnesota laws and regulations.
  - Two of the twenty-five disbursements tested were not paid within 35 days as required by Minnesota Statutes.
  - We noted 13 cash disbursements throughout the year that were not supported with proper back-up documentation.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 of the notes to basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. The financial statement disclosures are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Where applicable, management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management, when applicable, were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the Academy. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other schools and the MARSS data for fiscal year 2012 is not finalized until well into fiscal year 2013. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident school and also utilizing some estimates, particularly in the area of enrollment options.
>
> Special education state aid includes an adjustment related to tuition billings to other schools for special education services which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for fiscal 2012 is not finalized until after the Academy has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the Academy.
>
> The depreciation of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management in the areas discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations With Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 21, 2012.

Other Information in Documents Containing Audited Financial Statements

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. Other information, including the introductory section, supplemental information, the Schedule of Expenditures of Federal Awards, and the Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the basic financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

With respect to the supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

With respect to the introductory section accompanying the financial statements, our procedures were limited to reading this other information, and in doing so we did not identify any material inconsistencies with the audited financial statements.

BASIC FUNDING FOR PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. The last section of this report, which contains a summary of legislative changes affecting charter schools, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

STATE FINANCIAL OUTLOOK

The 2011 legislative session began with a projected budget deficit of $6.2 billion (later revised down to $5.0 billion in the February 2011 economic forecast) and strong disagreement between the democratic Governor and republican controlled Legislature on how to address the deficit. As the 2011 regular legislative session ended, the Governor vetoed eight major state appropriation bills and the omnibus tax bill passed by the Legislature, leaving the majority of state agencies without a budget for the next fiscal year. This resulted in the longest government shutdown in Minnesota history, with all "nonessential" state agencies closed from July 1, 2011 until the passing of appropriation bills in a special session on July 19th and 20th. As was the case in the last biennium, the state budget finally adopted for 2012–2013 utilized several large "accounting shifts" in an attempt to minimize the need for tax increases or state aid cuts to balance the budget. The accounting shifts included delaying an even higher percentage of estimated state aid payments to school districts and charter schools than was already being delayed, and a small expansion of the "tax shift," which accelerates the recognition of district tax levy revenue with an off-setting reduction in state aid. Both of these types of shifts significantly reduce the amount of operating cash available to Minnesota school districts and charter schools, but were intended to be revenue neutral, thereby sparing districts from deeper funding cuts.

The 2012 legislative session began on a much more positive note, with the November 2011 economic forecast projecting an unexpected surplus of $876 million for the remainder of the biennium. Even year legislative sessions are not typically budget years, but recently the legislature has often had to adopt supplemental budgets in even year sessions to address large projected shortfalls. The projected surplus, which had increased another $323 million by the February 2012 economic forecast, eliminated any need for a supplemental budget and allowed legislators to pay down some state borrowing. This resulted in Minnesota school districts receiving a slightly higher percentage of their estimated state aid entitlements by June 30, 2012 than anticipated. Unfortunately, this short-term improvement in the state's financial condition is not expected to continue. The same February 2012 economic forecast that projected a surplus for the remainder of current biennium anticipates a $1.1 billion deficit for the 2014–2015 biennium.

METERING OF STATE AID PAYMENTS

In order to help balance the state budget the Legislature changed the metering of state aid payments to Minnesota school districts and charter schools in recent years. In past years, charter schools have been paid 90 percent of their estimated state aid entitlements by June 30 each year, with the remaining 10 percent paid out in the following fiscal year. In fiscal 2010 and 2011, the state paid only 73 percent and 70 percent of estimated state aid entitlements by year-end. For fiscal 2012, charter schools were set to receive only 60 percent of current aid entitlements by June 30. However, an improved budget forecast in February 2012 caused this to be increased to 64.3 percent. These changes do not affect the accrual based revenue recorded by charter schools for each year, but have a significant impact on their cash flow, greatly increasing the need for short-term cash flow borrowing among charter schools.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts and charter schools is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a charter school is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM).

The table below presents a summary of the formula allowance for the past decade and as approved for the next fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes non-comparable changes such as temporary funding increases, the "roll-in" of aids that were previously funded separately, and the one-time replacement of a portion of the general education aid with federal fiscal stabilization funds in fiscal 2010:

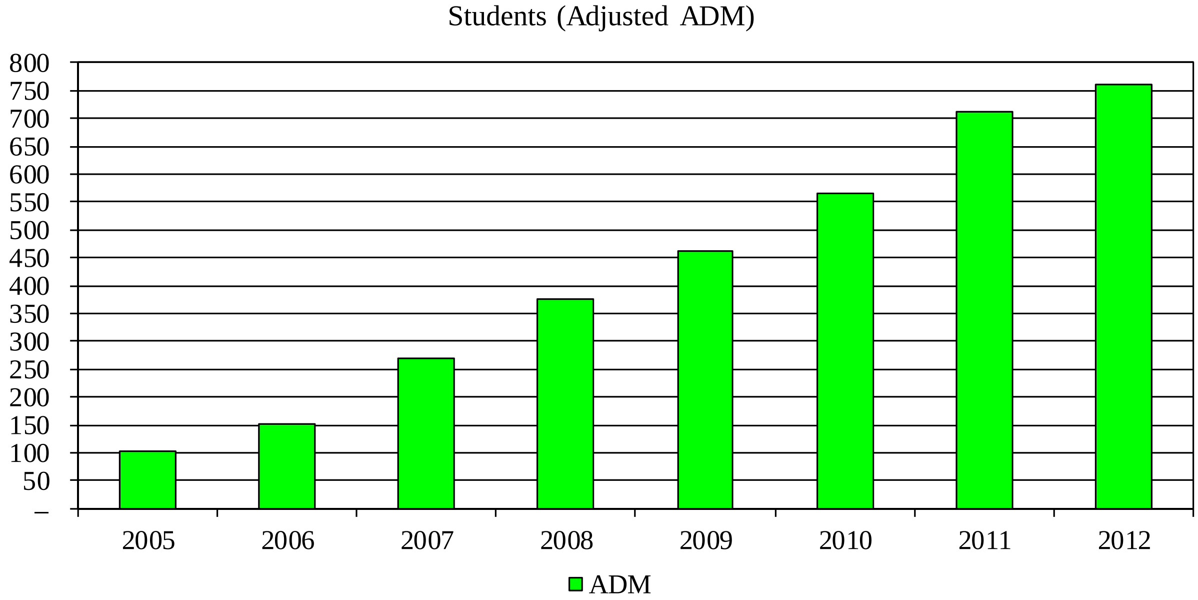
Fiscal Year Ended June 30,	Formula Allowance	Percent Increase
2003	$ 4,601	13.1 %
2004	$ 4,601	– %
2005	$ 4,601	– %
2006	$ 4,783	4.0 %
2007	$ 4,974	4.0 %
2008	$ 5,074	2.0 %
2009	$ 5,124	1.0 %
2010	$ 5,124	– %
2011	$ 5,124	– %
2012	$ 5,174	1.0 %
2013	$ 5,224	1.0 %

As noted in the table above, after having been frozen at the same level for the last three years, the Legislature has added $50 to the basic formula allowance for both fiscal 2012 and 2013. In recent years, the limited increases, if any, in the formula allowance have forced many districts and charter schools to continually cut expenditure budgets or seek increased referendum revenue in order to maintain programs.

FINANCIAL TRENDS OF YOUR ACADEMY

AVERAGE DAILY MEMBERSHIP

The following graph summarizes the ADM served by the Academy since the school opened:

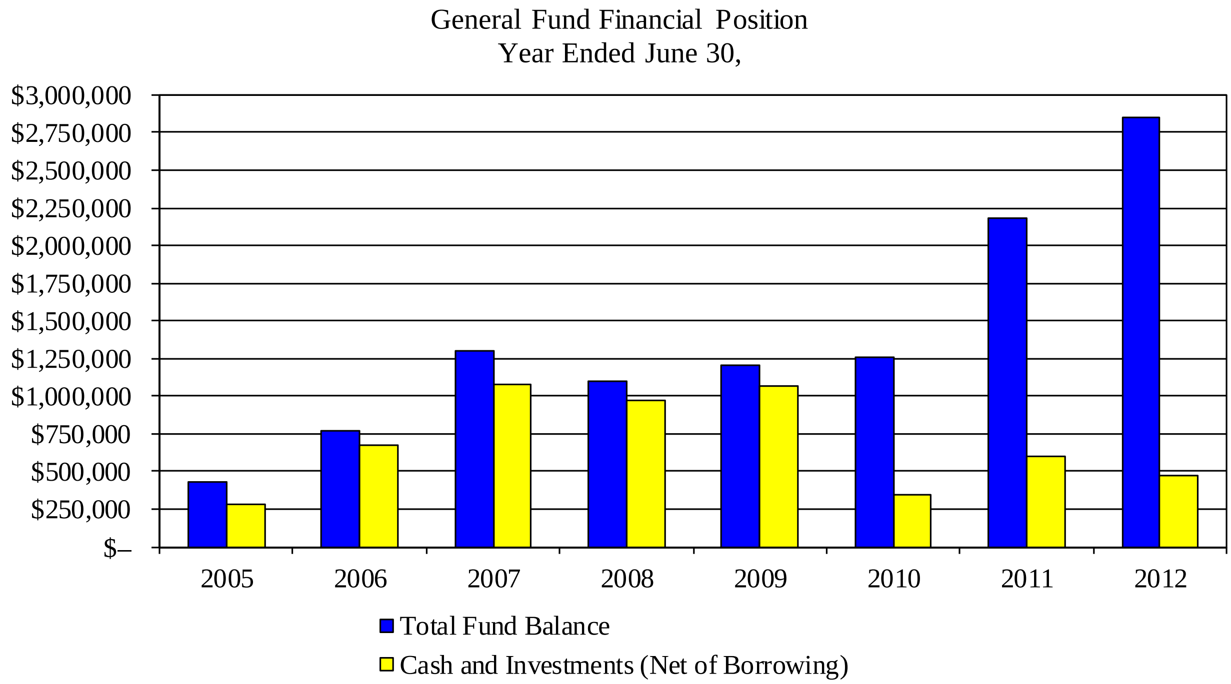


The Academy's ADM served for 2012 is estimated to be 760, which is an increase of 48 ADM from the previous year.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes and the impact of the prior year final adjustments which affect this year's revenue.

GENERAL FUND OPERATIONS AND FINANCIAL POSITION

The following graph displays the Academy's General Fund financial position since the school opened:



The Academy's General Fund ended 2012 with a total fund balance of $2,854,636, an increase of $669,990 from the prior year. The General Fund cash and investments balance (net of borrowing) at year-end was $474,337, a decrease of $127,372 from the prior year.

Total fund balance as a percentage of expenditures is one key measure of a school's financial health. The resources represented by this fund balance are critical to a school's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. For the Academy, this ratio was 37.8 percent at the end of fiscal 2012. This compares to a ratio of 33.0 percent at the end of fiscal 2011.

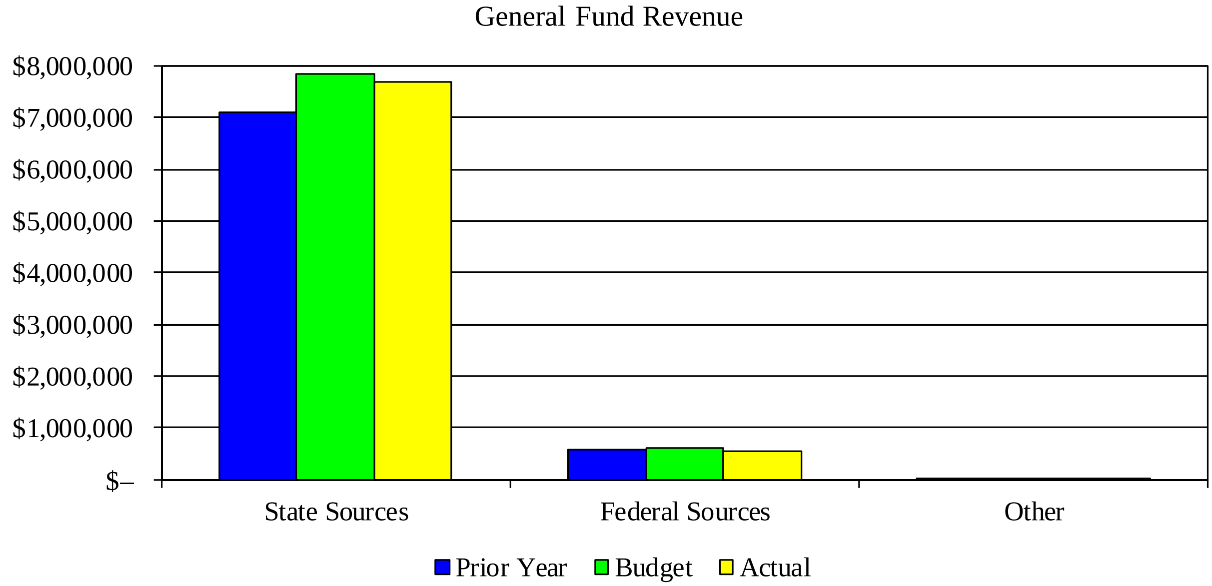
FUND BALANCE POLICY

The Academy's Board recognizes the need to establish a general operations reserve fund balance amount in order to comply with the requirements of the Building Company Bond documents, and maintain an adequate fund balance needed for the Academy's cash flow needs. It is the policy of the Academy to budget towards maintaining a 20–35 percent General Fund unassigned fund balance as a percentage of yearly General Fund expenditures. Excess annual year-end budget surpluses will not be allocated in following year budgets until the target fund balance is achieved, unless specifically directed by the Board.

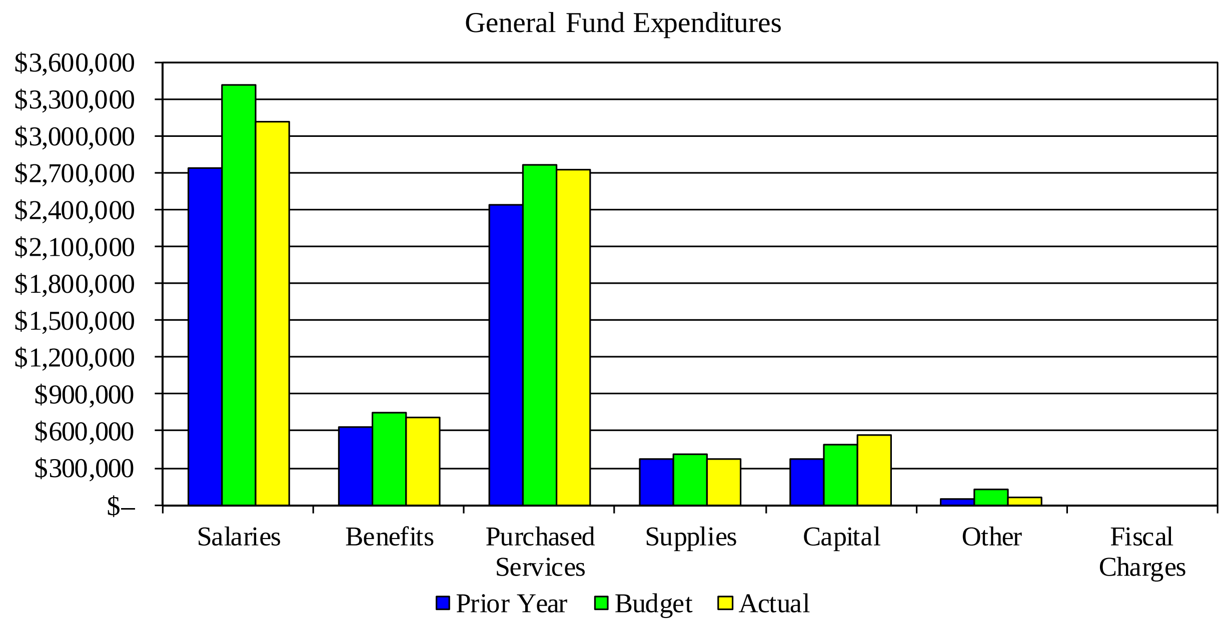
At June 30, 2012, the General Fund unassigned fund balance as a percentage of total fiscal 2012 expenditures was 37.6 percent.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the Academy's General Fund revenue and expenditures for 2012:



Total General Fund revenues for 2012 were $8,234,407, an increase of $524,411 from the prior year, and $225,802, or 2.7 percent, under budget. State aid revenue is $570,724 more than last year, primarily due to the increase in the number of students served by the Academy. Federal sources decreased $36,394 in fiscal 2012 due to a decrease in the availability of Education Jobs Funds in the current year.



Total General Fund expenditures for 2012 were $7,556,970, an increase of $939,610 from the prior year, and $391,019, or 4.9 percent, under budgeted amounts. Some of this increase in expenditures is related to the increased enrollment at the Academy and corresponding increases in salaries and benefit costs related to teaching and learning. The Academy also had increased purchased services costs related to increases to lease costs.

OTHER GOVERNMENTAL FUNDS

Food Service Special Revenue Fund

Food Service Special Revenue Fund expenditures exceeded revenue by $7,447 during the year ended June 30, 2012. After a transfer from the General Fund of $7,447 to cover the current year deficit, the fund ended the year with a fund balance of $0. It is important that the Food Service Special Revenue Fund be self-sustaining, so as not to place an additional burden on the General Fund.

Prairie Seeds Academy Building Company

The Prairie Seeds Academy Building Company (the Building Company) is a Minnesota nonprofit organization classified by the Internal Revenue Service as a 501(c)(3) tax-exempt organization by reason of its function as a "supporting organization" of the Academy. The Building Company is being operated exclusively in support of the Academy and, in particular, to purchase, own, and construct a public schoolhouse on real estate for lease to the Academy.

At June 30, 2012, the Building Company ended the year with a fund balance of $2,177,329. This fund balance is further segregated by a $2,106,194 balance restricted for debt service and a balance of $69,755 restricted for Building Company purposes.

The Academy's ability to make payments under this lease agreement is dependent on its ability to generate revenues, which in turn is largely dependent on sufficient enrollment being served at the Academy and sufficient state aids per student being authorized and received from the state of Minnesota. For fiscal 2012, the Academy qualified for state charter school lease aid which equaled an estimated $1,050,571 based on the statutory cap of per adjusted pupil unit served. Considering future annual payments on the lease agreement are about $1.6 million, the Academy will need to ensure aid entitlements are sufficient to meet lease obligations to the Building Company as they become due.

ENTITY-WIDE FINANCIAL STATEMENTS

The Academy's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the Academy's current assets to finance its current liabilities. The Governmental Accounting Standards Board (GASB) Statement No. 34 reporting model also requires the inclusion of two entity-wide financial statements designed to present a clear picture of the Academy as a single, unified entity. These entity-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net assets represent the resources the Academy has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how resources can be used. Therefore, the statement divides net assets into three components: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The following table presents a summarized conversion of the Academy's governmental fund balances (as individually discussed earlier) to net assets and separate components for the last three years.

	June 30, 2010	June 30, 2011	June 30, 2012
Net assets – governmental activities			
Total fund balances – governmental funds	$ 3,108,514	$ 4,340,579	$ 5,031,965
Capital assets, net of depreciation	12,459,581	12,349,361	12,502,958
Long-term liabilities	(15,770,000)	(15,770,000)	(15,635,000)
Interest payable, deferred charges, and unamortized discounts	334,818	234,342	137,466
Total net assets – governmental activities	$ 132,913	$ 1,154,282	$ 2,037,389
Net assets			
Invested in capital assets, net of related debt	$ (969,884)	$ (1,080,053)	$ (888,399)
Restricted for Building Company	–	49,672	71,152
Unrestricted	1,102,797	2,184,663	2,854,636
Total net assets	$ 132,913	$ 1,154,282	$ 2,037,389

The Academy's total net assets at June 30, 2012 were $883,107 higher than the previous year. Of the increase, $669,973 came in the unrestricted portion of net assets, which corresponds to the increase in the General Fund unrestricted fund balance. Invested in capital assets, net of related debt is the ratio of capitalized capital asset purchases, net of any depreciation to the amount of outstanding debt obligations that were issued to finance these capital purchases.

ACCOUNTING AND AUDITING UPDATES

GASB STATEMENT NO. 61 – THE FINANCIAL REPORTING ENTITY: OMNIBUS

This statement amends the current guidance in GASB Statement No. 14, "The Financial Reporting Entity," for identifying and presenting component units. This statement changes the fiscal dependency criterion for determining component units. Potential component units that meet the fiscal dependency criterion for inclusion in the financial reporting entity under existing guidance will only be included if there is also "financial interdependency" (an ongoing relationship of potential financial benefit or burden) with the primary government. This statement also clarifies the types of relationships that are considered to meet the "misleading to exclude" criterion for inclusion as a component unit; changes the criteria for blending component units; gives direction for the determination and disclosure of major component units; and adds a requirement to report an explicit, measurable equity interest in a discretely presented component unit in a statement of position prepared using the economic resources measurement focus. The requirements of this statement must be implemented for periods beginning after June 15, 2012, with earlier implementation encouraged.

GASB STATEMENT NO. 63 – FINANCIAL REPORTING OF DEFERRED OUTFLOWS OF RESOURCES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources; which are defined as the consumption or acquisition of net assets, respectively, applicable to a future reporting period. The statement amends certain reporting requirements in GASB Statement No. 34 and related pronouncements, providing a format for a new Statement of Net Position, which reports deferred outflows of resources and deferred inflows of resources separately from assets and liabilities. It also renames the residual of assets, deferred outflows of resources, liabilities, and deferred inflows of resources as net position, rather than net assets. The requirements of this statement must be implemented for periods beginning after December 15, 2011, with earlier implementation encouraged.

GASB STATEMENT NO. 65 – ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements, deferred outflows of resources, and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

GASB STATEMENT NO. 67 – FINANCIAL REPORTING FOR PENSION PLANS-AN AMENDMENT OF GASB STATEMENT NO. 25

The primary objective of this statement is to improve financial reporting by state and local governmental pension plans. GASB Statement No. 67 replaces the requirements of GASB Statements No. 25 and No. 50 for pension plans that are administered through trusts or equivalent arrangements that meet the following criteria: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The requirements of GASB Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement and to defined contribution plans that provide postemployment benefits other than pensions. The statement makes a number of changes in the financial statement presentation, measurement, and required disclosures relating to the reporting of these types pension plans. This statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

GASB STATEMENT NO. 68 – ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS-AN AMENDMENT OF GASB STATEMENT NO. 27

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements of GASB Statements No. 27 and No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria (as described above for GASB Statement No. 67). The requirements of GASB Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this statement. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. This statement is effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

Included in this statement are major changes in how employers that participate in cost-sharing pension plans, such as TRA and PERA, account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability of all employers with benefits provided through the pension plan. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. In addition, the effects of (1) a change in the employer’s proportion of the collective net pension liability and (2) differences during the measurement period between the employer’s contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer’s pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all active and inactive employees that are provided with pensions through the pension plan.

LEGISLATIVE SUMMARY

The following is a brief summary of recent legislative changes and issues affecting the funding of Minnesota charters schools. More detailed and extensive summaries are available from the MDE.

Basic General Education Revenue – The per pupil basic general education formula allowance for fiscal year (FY) 2012 was $5,174. The allowance will increase $50 to $5,224 for FY 2013. Beginning in FY 2012, charter schools may accept shared time students and received general education shared time aid.

State Aid Payments and Payment Deferrals – State aids normally paid on a 90–10 schedule were due to be paid on a 60–40 payment schedule beginning in FY 2012 for both school districts and charter schools. Due to a projected budget surplus, the percentage of FY 2012 estimated state aids payable to districts and charter schools during the current year was increased to 64.3 percent, beginning with the March 15, 2012 payment. The March 15th payment was adjusted to catch districts and charter schools up to the amounts they would have received through that date had the current payment percentage been set at 64.3 percent throughout the year. An exception was allowed for charter schools in which at least 90 percent of the enrollment receives special education services with a maximum enrollment of 200 students, accelerating regular special education aid payments only to a 90–10 payment schedule.

Endowment/Permanent School Fund Payments – Effective March 1, 2012, the distribution of endowment/permanent school fund revenue will be based on the adjusted average daily membership (ADM) pupils served by each school district rather than resident ADM pupils. Also, charter schools will qualify to receive endowment/permanent school fund payments beginning that same date.

Early Graduation Programs – Two programs were created that provide students that graduate early with awards between $2,500 and $7,500, depending on how many semesters early they graduate. Students qualifying for the Early Graduation Achievement Scholarship Program receive a scholarship award that may be used at any accredited higher education institution, and students qualifying for the Early Graduation Military Service Award Program receive a cash award equivalent to the scholarship program award amounts. Students are required to apply for these programs within two years of graduation. General education aid to school districts and charter schools is reduced for all early graduates, regardless of whether they participate in one of these programs.

Literacy Incentive Aid – For FY 2013 and later, a new literacy incentive aid is available to school districts and charter schools. Only school sites that enroll students in Grades 3 and 4, with reading Minnesota Comprehensive Assessment (MCA) test results from the prior year, generate revenue. There is no requirement for the funds to be spent at the school generating the revenue. The aid may be used for any General Fund purpose.

Literacy incentive aid is the sum of two components, proficiency aid and growth aid. Proficiency aid equals the number of the school’s third grade enrollment from October 1 of the previous year times the school’s proficiency allowance ($530 times the percent of third graders meeting or exceeding proficiency on the reading MCA test, averaged across the previous three test administrations). Growth aid equals the school’s fourth grade enrollment on the previous October 1 times the school’s growth allowance ($530 times the percentage of students making medium or high growth on the fourth grade reading MCA test, averaged across the previous three test administrations).

Integration Aid – The current integration rule remains in effect with no sunset. However, the current integration aid funding formula remains in place only through FY 2013. The integration revenue statute is repealed for FY 2014, and the base appropriation for a new program is established for FY 2014 and FY 2015. A 12-member Integration Revenue Replacement Advisory Task Force convened by the Commissioner of Education will develop recommendations for repurposing integration revenue funds to create and sustain opportunities for students to achieve improved educational outcomes.

Post-Secondary Enrollment Options (PSEO) – Eligibility to participate in PSEO programs has been expanded to include 10th graders who have passed the 8th grade reading MCA. Postsecondary institutions are now allowed to advertise and recruit students on educational and programmatic grounds only. The deadline for students to notify districts of plans to participate in PSEO was moved from March 30 to May 30, with the notification now binding on the student. Students will now receive both high school and college credit for PSEO courses. Parents or guardians can receive reimbursement for transportation from the postsecondary institution for travel between the secondary and postsecondary institutions.

PERA and TRA Rates – Contribution rates for employers and employees of the PERA Coordinated Plan increased by 0.25 percent effective January 1, 2011. Contribution rates for employers and employees for both the TRA Basic and Coordinated Plans increase by 0.5 percent each year through FY 2015. There is no additional aid to help fund these increases.

Minnesota Department of Education (MDE) Budget – The MDE budget has been reduced by 5.0 percent annually for FY 2012 and FY 2013.

Charter School Contract – Initial charter school contracts are allowed to be up to five years, up from three years.

Charter School Website – Charter schools are required to publish and maintain the following information on its website: the minutes of the board and board delegated committees for one year, directory information for board members and board designated committee members, and contact information for the charter school's authorizer.

Charter School Year – The minimum school year for charter schools changed from days to hours, which is the same as school districts.

Charter School Authorizers – Authorizers are prohibited from assessing any fees to charter schools for any required services other than as provided in the law. Any authorizer that decides to withdraw from being a state approved authorizer must give the MDE Commissioner and the schools it authorizes 11½ months notice.

Charter School Board Training – The requirement for the MDE to approve charter school board training providers has been eliminated. However, the board is required to report, in the school's annual report, the training attended by each boardmember during the previous year.

Affiliated Nonprofit Building Corporation – Affiliated building companies are required to comply with IRS regulations for "supporting organizations," which allows for overlap of boardmembers between the charter school and supporting nonprofit companies.

Facilities – Affiliated charter schools and affiliate building companies seeking to expand an existing facility must comply with the same requirements as if they were constructing a new facility. Charter schools and affiliated building companies are required to submit any contract for purchase, lease agreement, solicitation of bids for new construction or expansion, or remodeling expenditures over $1.4 million to the MDE for review and comment. Affiliated building companies must have a plan for renovation and purchase of a building that describes the parameters of the budget. The number of years a charter school is required to have a "net positive general fund balance" for schools affiliated with a building company has been reduced from 8 years to 5 years.

Collaborative Agreements – Charter schools are allowed to enter into voluntary, two-year, renewable collaborative agreements with the school district whose geographic boundaries it lies within, that may include but is not limited to: facilities, transportation, and student achievement assessments.

With a collaborative agreement for student achievement assessment, the school district can include the achievement scores of the charter school for reporting to the state. The charter school, school district, and authorizer in the agreement are equally and collectively subject to the same state and federal accountability standards. The agreement and assessment scores must be posted on the charter school, school district, and authorizer websites.

Building Lease Aid – This law removes the grandfather clause for charter school building lease aid. This new law is effective for FY 2013 and later.

Repealer on Charter School Startup Aid – A new law repeals Minnesota Statutes, Sections 124D.11, Subd. 8 (on charter school startup aid), effective for FY 2013 and later.