Management Report

for

Metro Deaf School
St. Paul, Minnesota
June 30, 2012

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Metro Deaf School
St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of Metro Deaf School's (the School) financial statements for the year ended June 30, 2012. The purpose of this report is to make 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
- Funding Public Education in Minnesota
- Financial Trends of Your School
- 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 19, 2012

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

We hereby provide you with the following 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 School.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the School 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 and *Government Auditing Standards*, 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

Audit Opinion on the School's Financial Statements

We have issued an unqualified opinion on the School's financial statements. This means that after performing our audit tests and procedures, we have concluded that the basic financial statements fairly present the School's financial position and changes in financial position for the year ended June 30, 2012.

Report on Internal Controls and Compliance Over Financial Reporting

We reported no material weaknesses in the School's internal controls over financial reporting.

Our testing did not indicate any findings related to compliance over financial reporting that were required to be reported under *Government Auditing Standards*.

Report on Compliance With Minnesota Laws and Regulations

We reported no findings based on our testing of the School's compliance with Minnesota laws and regulations.

Follow-Up on Prior Year Findings and Recommendations

As a result of our audit of the School's financial statements for the year ended June 30, 2011, we reported the following findings that were corrected by the School in the current year:

- Minnesota Statutes require charter schools with boards that meet at least once per month to pay each vendor obligation according to the terms of each contract within 35 days after the receipt of the goods or services or the invoice for the goods or services. For two disbursements selected for testing in the prior year, the School did not pay the obligation within the required time period. Based on our testing, this was not a finding for fiscal 2012.

- Minnesota Statutes require that if a charter school's deposits exceed federal insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the School's deposit accounts at June 30, 2011. During our testing of this requirement for the current year, we noted the School's deposit accounts were fully covered by federal depository insurance, and this was not a finding for fiscal 2012.

- Minnesota Statutes require the School to have proper documentation of the formal actions of the Board regarding the designation of each depository of public funds. The School did not document the approval of its depositories in its official Board minutes in fiscal 2011. During our testing of this requirement for the current year, we noted that the approval of depositories was documented in the School's official Board minutes in fiscal 2012.

- Minnesota Statutes require the School to have proper documentation of the formal actions of the Board regarding the authority to make electronic fund transfers. The School did not document the approval of the authority to make electronic fund transfers in its official Board minutes in fiscal 2011. During our testing of this requirement for the current year, we noted that the authority to make electronic fund transfers was documented in the School's official Board minutes in fiscal 2012.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School 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 School 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:

> Special education state aid includes an adjustment related to tuition billings to and from 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 School 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 School.
>
> The School uses estimates of useful lives for the depreciation of capital assets.

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 significant 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 School'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 School'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 19, 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 School's basic financial statements. Other information, including the introductory section, supplemental information, and 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 and 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 and UFARS Compliance Table 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:

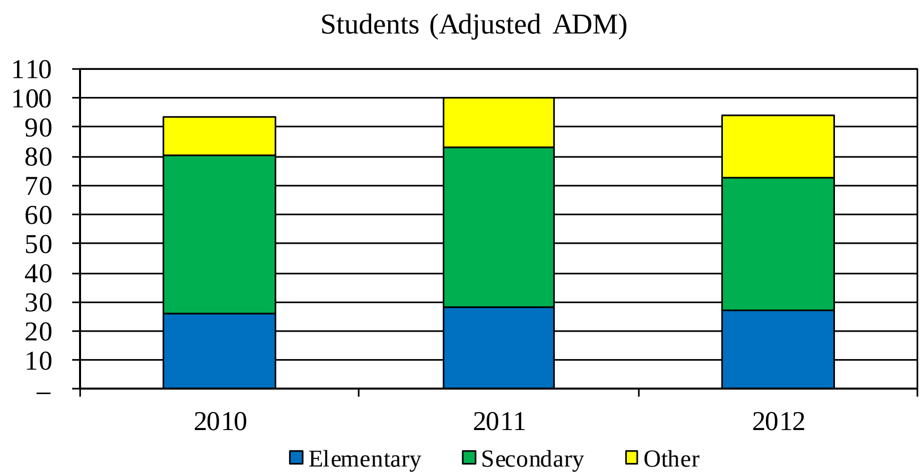
	Formula Allowance	
Fiscal Year Ended June 30,	Amount	Percent Increase
2003	$ 4,601	2.6 %
2004	$ 4,601	– %
2005	$ 4,601	– %
2006	$ 4,783	4.0 %
2007	$ 4,974	4.0 %
2008	$ 5,074	2.0 %
2009	$ 5,124	1.0 %
2010	$ 5,124	– %
2011	$ 5,124	– %
2012	$ 5,174	1.0 %
2013	$ 5,224	1.0 %

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 SCHOOL

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph summarizes the ADM served by the School for the last three years:



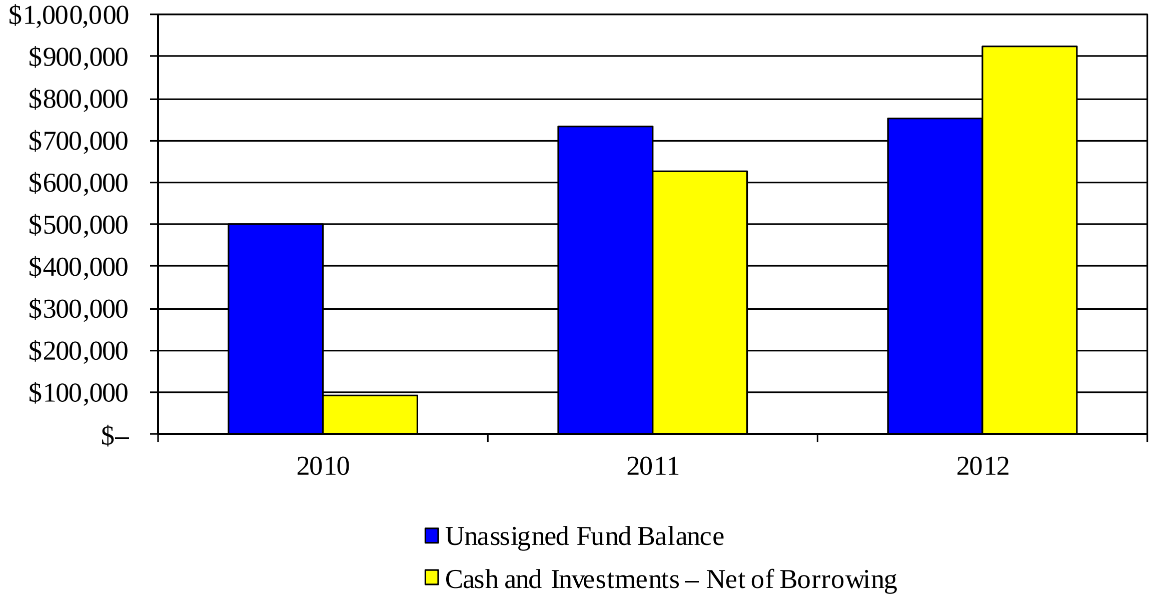
The School's ADM served for 2012 is estimated to be 94, a decrease of 6 ADM (5.8 percent) from the previous year.

ADM is a measure of students attending class, which is 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 prior year final adjustments which affect the current year's revenue.

General Fund Operations and Financial Position

The following graph displays the School's General Fund financial position for the last three years:

General Fund Financial Position
Year Ended June 30,

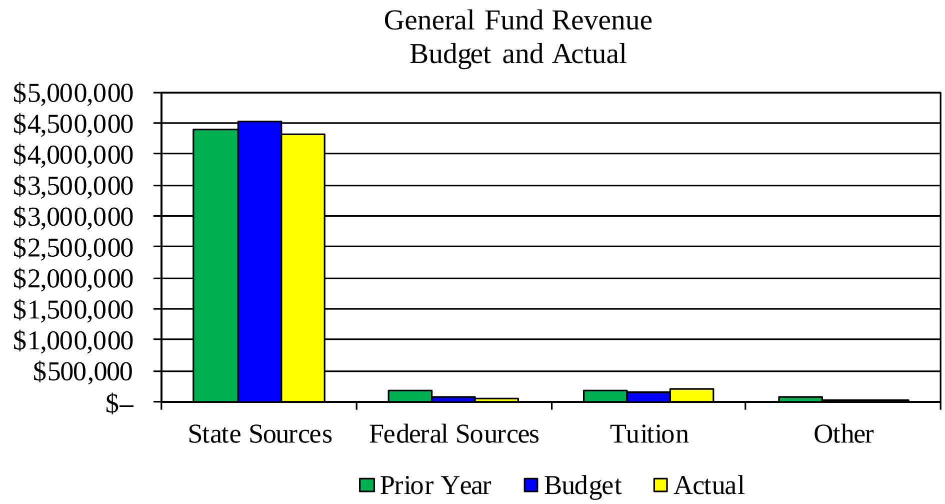


The School's General Fund ended 2012 with an unrestricted/unassigned fund balance of $751,557, an increase of $18,731 from the prior of the year. The General Fund cash and investments balance at year-end, net of interfund borrowing, was $925,101, an increase of $297,260 from the prior year.

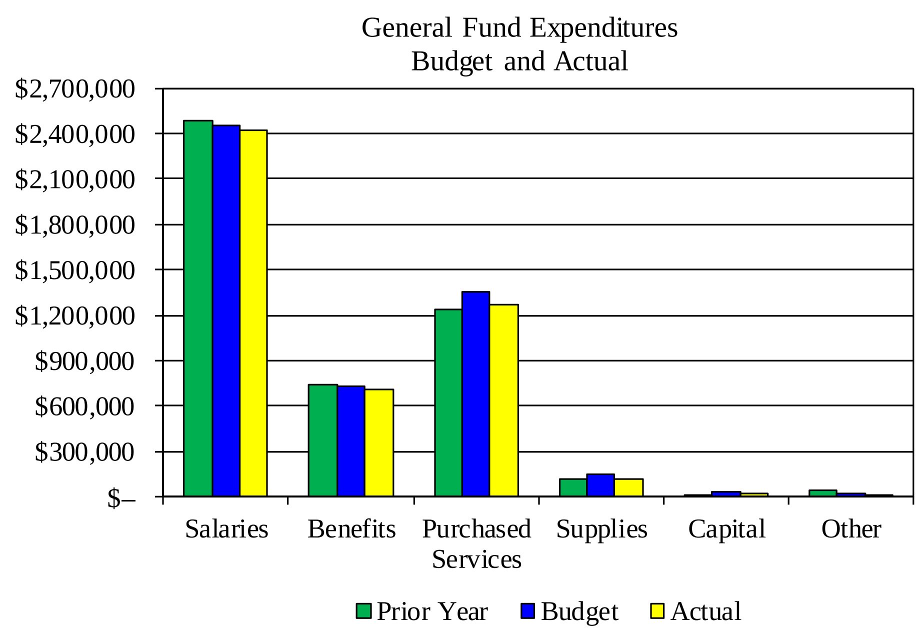
Unrestricted/unassigned fund balance as a percentage of expenditures is one key measure of a school's financial health. The resources represented by this fund balance are critical to a school's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. For the School, this ratio was 16.5 percent at the end of 2012.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the School's General Fund revenue and expenditures for 2012 and 2011:



Total General Fund revenues for 2012 were $4,597,565, a decrease of $256,048 and $154,854 under budget. Tuition was over budget by $67,623. The amounts to be billed to other Minnesota and Wisconsin districts were not known at the time the budget was approved; therefore, the School made a conservative estimate. State and federal revenues were under budget by $209,032 and $14,017, respectively, as the School earned less state and federal special education funding than projected.



Total General Fund expenditures for 2012 were $4,553,366, a decrease of $96,941 from the prior year, and $193,408 under budget. The decrease from the prior year is mainly due to a decrease in enrollment which led to less spending. The budget variance was mainly due to conservative spending, as expenditures were under budget in all categories.

FOOD SERVICE SPECIAL REVENUE FUND

In 2012, the School's Food Service Special Revenue Fund expenditures exceeded revenues by $6,761, and the fund balance was $0 at year-end. The Food Service Special Revenue Fund was supported by the General Fund with a transfer in of $6,761. It is important that the Food Service Special Revenue Fund be as self-sustaining as possible so it does not place an additional burden on the General Fund.

BUILDING COMPANY SPECIAL REVENUE FUND

The Building Company Special Revenue Fund is used to account for 1House2Hands, Inc., which is considered to be a component unit of the School. The fund ended the year with a fund balance of $238,427.

ENTITY-WIDE FINANCIAL STATEMENTS

The School's financial statements include fund-based information that focuses on budgetary compliance and sufficiency of the School'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 School 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 School 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 the 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 School's governmental fund balances (as individually discussed earlier) to net assets and separate components for the last three years:

	June 30,		
	2010	2011	2012
Net assets – governmental activities			
Total fund balances – governmental funds	$ 513,508	$ 858,141	$ 1,056,016
Total capital assets, net of accumulated depreciation	4,359,372	4,149,567	3,967,028
Total long-term debt	(4,281,185)	(4,114,814)	(3,955,760)
Total net assets – governmental activities	$ 591,695	$ 892,894	$ 1,067,284
Net assets			
Invested in capital assets, net of related debt	$ 78,187	$ 34,753	$ 11,268
Restricted	1,256	77,990	238,427
Unrestricted	512,252	780,151	817,589
Total net assets	$ 591,695	$ 892,894	$ 1,067,284

Net assets increased $174,390 from the beginning of the year, due to the improvement in the financial positions of both the School's General Fund and the Building Company Special Revenue Fund.

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.