YINGHUA ACADEMY
Minneapolis, Minnesota

Management Letter
For the Fiscal Year Ended June 30, 2010
REPORT ON MATTERS IDENTIFIED AS A RESULT OF
THE AUDIT OF THE FINANCIAL STATEMENTS

September 28, 2010

Members of the Board
Yinghua Academy
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2010, in accordance with U.S. generally accepted auditing standards and Government Auditing Standards, we considered the Academy’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. No material weaknesses or significant deficiencies were identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Academy’s financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
The accompanying memorandum also includes financial analysis and recommendations for management that came to our attention as a result of our audit of the financial statements of the Academy for the year ended June 30, 2010. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor’s Report dated September 28, 2010, on such statements.

This communication is intended solely for the information and use of the Academy Board, management, others within the organization and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
CONSIDER THE IMPLICATIONS OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 54, FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS

Governmental Accounting Standards Board (GASB) Statement No. 54 was enacted to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories or prepaid expenses. This Statement also provides for additional classification as restricted, committed, assigned and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed, unless that is a negative balance. Unassigned fund balance is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed or assigned.

Governments are allowed to have stabilization amounts which are formally set aside for use in emergency situations or when revenue shortages or budgetary imbalances arise. These funds must be restricted or committed for a specific purpose and cannot occur routinely.

Governments are required to have a fund balance policy which addresses a reasonable minimum level of unrestricted fund balance to be maintained, how the unrestricted fund balance can be used or spent down and how that fund balance will be replenished if it falls below the minimum level.

Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the government fund financial statements and avoid confusion about the relationship between the reserved fund balance and restricted net assets. The Statement is also designed to enhance the usefulness of fund balance information by clarifying the definitions of governmental fund types.
YINGHUA ACADEMY
Minneapolis, Minnesota

RECOMMENDATION FOR MANAGEMENT
June 30, 2010

CONSIDER THE IMPLICATIONS OF GOVERNMENTAL ACCOUNTING
STANDARDS BOARD STATEMENT NO. 54, FUND BALANCE REPORTING AND
GOVERNMENTAL FUND TYPE DEFINITIONS

This Statement is effective for the year ending June 30, 2011. However, early implementation is
not possible until instructions and coding is provided by the Minnesota Department of Education.
Fund balance reclassifications made to conform to the provisions of this Statement should be
applied retroactively by restating fund balance for all prior periods presented.
YINGHUA ACADEMY
Minneapolis, Minnesota

REQUIRED COMMUNICATION
June 30, 2010

We have audited the basic financial statements of the Academy for the year ended June 30, 2010, and have issued our report dated September 28, 2010. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

As part of obtaining reasonable assurance about whether the Academy’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Academy’s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement applicable to its major federal program for the purpose of expressing an opinion on the Academy’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Academy’s compliance with those requirements.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.
QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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:

Depreciation – The Academy is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General education aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this aid is an estimate. Special education aid is also dependent upon ADM value; however, in addition to those, this aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

We evaluated the key factors and assumptions used to develop the above estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

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. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.
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 REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

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 the consultant has all the relevant facts. We are not aware of any consultations by the Academy’s management with other accountants during the course of our audit.

OTHER AUDIT FINDINGS

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.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.
The following pages provide graphic representation of select data pertaining to the financial position and operations of the Academy for the past four years. Our analysis of each graph is presented to provide a basis for discussion.

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kindergarten</td>
<td>35.29</td>
<td>45.09</td>
<td>72.52</td>
<td>74.20</td>
</tr>
<tr>
<td>Grades 1-3</td>
<td>46.44</td>
<td>87.55</td>
<td>121.27</td>
<td>167.59</td>
</tr>
<tr>
<td>Grades 4-6</td>
<td>-</td>
<td>16.21</td>
<td>37.97</td>
<td>57.33</td>
</tr>
<tr>
<td><strong>Total ADMs Served</strong></td>
<td><strong>81.73</strong></td>
<td><strong>148.85</strong></td>
<td><strong>231.76</strong></td>
<td><strong>299.12</strong></td>
</tr>
</tbody>
</table>

* Estimate

The chart and graph above illustrates the trend in ADM served by the Academy over the first four years of operations. The Academy has more than tripled its student count from 2007 to 2010. With the addition of 4th grade in fiscal year 2008, 5th grade in fiscal year 2009, 6th grade in fiscal year 2010 and a significant increase in ADM in the other two categories, total ADMs served increased by 67.36 ADMs, or 29%, from the prior year.
RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

To calculate a majority of the Academy’s education aids, the ADM amounts are converted into pupil units by weighting, based on the student’s grade level. These weighting factors are presented in the table below.

The total pupil units are converted to adjusted pupil units, which is used to calculate the Academy’s education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

<table>
<thead>
<tr>
<th>Pupil Units Weighting</th>
<th>Prekindergarten and Handicapped Kindergarten</th>
<th>Kindergarten</th>
<th>Elementary Grades Grades 1-3/4-6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2007</td>
<td>1.250/1.000</td>
<td>0.557</td>
<td>1.115/1.060</td>
</tr>
<tr>
<td>Fiscal 2008-2010</td>
<td>1.250/1.000</td>
<td>0.612</td>
<td>1.115/1.060</td>
</tr>
</tbody>
</table>

The weighted average daily membership (WADM) served graph below converts the ADM served into weighted or adjusted pupil unit data for the past three years taking into consideration the above weighting factors. WADMs increased between 2009 and 2010 by 70.85, or 32%, pupil units and 222.75 since the Academy’s first year.

Total WADMs

![Bar chart showing the total WADMs for 2007, 2008, 2009, and 2010* with estimates.]

* Estimate
GENERAL FUND OPERATIONS

Total General Fund revenues increased by $1,057,080, or 61%, to $2,788,426 in 2010. The largest component of the increase in revenue was the $483,072 increase in revenue from federal sources. This significant increase is due to the receipt of the Foreign Language Assistance Program Grant and a Mathematical Sciences Grant, as well as federal stabilization aid. Revenue from state sources increased by 33% due to the increase in WADMs. Revenue from other sources increased by 46% due to an increase in gifts and donations, as well as a grant from the Chinese government.

Revenues from federal sources increased from 2% of total revenues in 2009 to 18% of total revenues in 2010, while revenues from state sources decreased from 92% of total revenues in 2009 to 76% of total revenues in 2010. This change in funding sources is due to the Academy receiving a Foreign Language Assistance Program Grant and a Mathematical Sciences Grant in 2010. The Academy also received about $70,000 in federal stabilization funds that replaced state general education aid.
GENERAL FUND OPERATIONS

The following pie charts illustrate the breakdown of General Fund expenditures by program for the past two years.

As seen in the graphs above, expenditures among programs have remained fairly consistent from 2009 to 2010. The most significant change is in site and buildings which increased from 19% of total expenditures in 2009 to 23% in 2010. This increase is due to the Academy moving to a new, larger location with higher rent costs for fiscal year 2010.
GENERAL FUND EXPENDITURES

The Academy's first school year was 2007 and the years prior to that were planning years. The General Fund expenditures increased $1,111,753, or 66%, in 2010 over the prior year.

All programs had increases in 2009; however, the majority of this increase occurred in the programs of regular instruction and sites and buildings. Regular instruction increased due to the addition of teaching staff for the first class of existing 5th grade students in fiscal 2009 that continued to 6th grade in fiscal 2010. Sites and buildings increased as a result of the Academy moving into a new, larger building with higher rental costs.

<table>
<thead>
<tr>
<th>General Fund Expenditures</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$20,640</td>
<td>$132,925</td>
<td>$141,493</td>
<td>$151,396</td>
<td>$244,566</td>
</tr>
<tr>
<td>District Support Services</td>
<td>53,788</td>
<td>90,286</td>
<td>94,173</td>
<td>165,398</td>
<td>204,006</td>
</tr>
<tr>
<td>Regular Instruction</td>
<td>-</td>
<td>261,161</td>
<td>500,503</td>
<td>729,842</td>
<td>1,240,909</td>
</tr>
<tr>
<td>Special Education</td>
<td>-</td>
<td>14,167</td>
<td>31,376</td>
<td>132,400</td>
<td>199,542</td>
</tr>
<tr>
<td>Instructional Support Services</td>
<td>-</td>
<td>92,274</td>
<td>102,720</td>
<td>132,560</td>
<td>212,057</td>
</tr>
<tr>
<td>Pupil Support Services</td>
<td>-</td>
<td>2,047</td>
<td>4,323</td>
<td>35,181</td>
<td>44,710</td>
</tr>
<tr>
<td>Sites and Buildings</td>
<td>-</td>
<td>178,695</td>
<td>274,396</td>
<td>325,400</td>
<td>634,791</td>
</tr>
<tr>
<td>Fiscal and Other Fixed Cost Programs</td>
<td>1,269</td>
<td>10,500</td>
<td>5,493</td>
<td>5,901</td>
<td>9,250</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$75,697</td>
<td>$782,085</td>
<td>$1,154,477</td>
<td>$1,678,078</td>
<td>$2,789,831</td>
</tr>
</tbody>
</table>

Below is a chart showing the Academy’s expenditures per ADM served. Although expenditures significantly increased in fiscal year 2010, so did the students served. Expenditure per ADM increased mainly as a result of spending related to additional grant awards the Academy received over and above its base funding. Community service costs decreased per student due to “economies of scale”, while food service costs per student remained similar to 2009. In 2007, the Academy’s General Fund was nearly equivalent to the state average. However, in 2008 and 2009, expenditures per ADM served were $2,041 and $3,398, respectively, below the state average.

<table>
<thead>
<tr>
<th></th>
<th>2007**</th>
<th>2008**</th>
<th>2009**</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$9,490</td>
<td>$7,756</td>
<td>$7,241</td>
<td>$9,327</td>
</tr>
<tr>
<td>Food Service</td>
<td>365</td>
<td>334</td>
<td>344</td>
<td>361</td>
</tr>
<tr>
<td>Community Service</td>
<td>403</td>
<td>503</td>
<td>812</td>
<td>777</td>
</tr>
<tr>
<td>State General Fund Average</td>
<td>9,364</td>
<td>9,797</td>
<td>10,639</td>
<td>Unavailable</td>
</tr>
</tbody>
</table>

* Estimate
** Amounts listed for 2007, 2008 and 2009 were obtained from the Minnesota Department of Education publication, School District Profiles.
GENERAL FUND OPERATIONS

The graph below presents the results of operations for the General Fund at June 30 for each of the past five years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Expenditures</th>
<th>Fund Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$76,213</td>
<td>$75,697</td>
<td>$741</td>
</tr>
<tr>
<td>2007</td>
<td>$853,041</td>
<td>$782,055</td>
<td>$71,726</td>
</tr>
<tr>
<td>2008</td>
<td>$1,348,127</td>
<td>$1,154,477</td>
<td>$257,967</td>
</tr>
<tr>
<td>2009</td>
<td>$1,731,346</td>
<td>$1,678,078</td>
<td>$308,700</td>
</tr>
<tr>
<td>2010</td>
<td>$2,788,426</td>
<td>$2,789,831</td>
<td>$303,426</td>
</tr>
</tbody>
</table>
GENERAL FUND REVENUES BUDGET TO ACTUAL COMPARISON

The following graph shows the Academy is budgeting accurately for revenue. The original budget approved in April 2009 of $2,452,922 estimated revenues were targeted to produce an operating deficit of $62,637. After budget revisions, expenditures were estimated to exceed revenues by $56,332. Actual revenues of $2,788,426 exceeded the original budget and were slightly below the revised budget of $2,865,663, to produce a variance of $77,237, or 2.7%.
YINGHUA ACADEMY
Minneapolis, Minnesota

FINANCIAL ANALYSIS
June 30, 2010

GENERAL FUND EXPENDITURES BUDGET TO ACTUAL COMPARISON

The graph below compares the actual expenditures to the revised budgeted expenditures of the Academy. Overall, the Academy’s final budget was amended to a total of $2,921,995 for expenditures. Actual expenditures ended the year at $2,789,831 which resulted in a $132,164, or 4.5%, variance. The greatest variance, $121,351 under budget, occurred in regular instruction as the Academy budgeted for an employee to be paid from the regular instruction program who was actually paid from the administration program. Administration, District Support Services and Fiscal and Other Fixed Cost Programs were the only programs to be over budget by $61,693, $30,499 and $1,750, respectively. Administrative expenditures were over budget due to the employee paid from administration but budgeted for in regular instruction. The remaining programs were all under budget.

![General Fund Expenditures Budget to Actual Graph](image)

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$244,566</td>
<td>$182,873</td>
</tr>
<tr>
<td>District Support Services</td>
<td>$204,006</td>
<td>$173,507</td>
</tr>
<tr>
<td>Regular Instruction</td>
<td>$1,240,909</td>
<td>$1,302,260</td>
</tr>
<tr>
<td>Special Education</td>
<td>$199,542</td>
<td>$234,204</td>
</tr>
<tr>
<td>Instructional Support Services</td>
<td>$212,057</td>
<td>$234,915</td>
</tr>
<tr>
<td>Pupil Support Services</td>
<td>$44,710</td>
<td>$57,028</td>
</tr>
<tr>
<td>Sites and Buildings</td>
<td>$634,791</td>
<td>$669,708</td>
</tr>
<tr>
<td>Fiscal and Other Fixed Cost Programs</td>
<td>$9,250</td>
<td>$7,500</td>
</tr>
</tbody>
</table>
GENERAL FUND OPERATIONS

The graph below presents the fund balance of the General Fund at June 30 for each of the past five years with cash (net of any borrowings) for the same periods.

The Academy experienced its largest growth during 2010. As discussed earlier, students served increased because of additional classes added and a larger building was used. Given the circumstances of the past year, the Academy was able to maintain its fund balance, decreasing only $5,274.

During 2010, the State of Minnesota experienced a shortfall in its budget and increased the hold back of state aids to schools. While the state paid 90% for the past few years, only 73% of state aids were paid prior to year-end in 2010. The General Fund receivable with the state increased nearly $488,000. Because of the increased proration, the Academy was forced to exercise its line of credit. At June 30, 2010, the Academy had borrowed $115,000 on the line and $117,562 from the Community Service Fund. The state aids for 2011 fiscal year will be paid at 70%.

For the year ended June 30, 2010, the Academy had a little over one month of expenditures based on 2010 spending levels in its fund balance.
The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

The formula allowance for the fiscal year 2011 general education aid remains unchanged from the fiscal year 2010 allowance. The state was the recipient of $167 million in federal Education Jobs Fund (Ed Jobs) money for the 2010-2011 school year. This is a one time federal program to provide assistance to states to save or created education jobs. These funds are allocated to the districts based on general education aid, state special education and excess cost aid. An estimate is available on the MDE web site.

During fiscal year 2011, payments for state aids will be paid at 70% current and 30% final payment. The 90% current and 10% final payment is reinstated for fiscal year 2012. Districts and charter schools in statutory operating debt (SOD) can receive early final payment on June 20 to bring total general education aid for the year up to 90% of the aid entitlement but not to exceed the amount of SOD in the district.

STATE AID PAYMENT DELAYS

_Minnesota Statutes_ 127A.46 was modified to make state aid payment delays to districts optional instead of mandatory before the state does short-term borrowing. It also limits the delays to districts with fund balances of $700 per resident pupil unit or more and deducts the first $700 pupil unit of cash balances in calculating the delays.

The state exercised this option for fiscal year 2011 aids and currently estimates that between $156 million and $83 million of aids will be delayed for approximately 138 districts that meet the above cash and fund balance limits. Delays begin on September 15 and will be paid in full by May 30, 2011.

PROPERTY TAX LEVIES

There are no new levies for taxes payable in 2011. The property tax shift was ratified at a 48.6% shift for fiscal year 2011 and later and uses the same calculation method and percent as the previous tax shift enacted in 2003, to be repaid when the state budget improves (after the state cash flow account balance reaches $350 million, the state budget reserve reaches $653 million and the aid payment schedule is restored to 90-10).

Beginning in fiscal year 2011, the first half of the school levy payments (amounts received in May, June and July settlements) is shifted back into the previous fiscal year.
MDE BUDGET

Given the current economic condition of the state, the MDE budget has been reduced by $796,000 for fiscal year 2010 and $1.132 million for fiscal year 2011 and later.

DEBT SERVICE EQUALIZATION AID

Sets standing appropriations for debt service equalization aid at $17,161,000 for fiscal year 2012 and at $19,175,000 for fiscal year 2013, which should eliminate the need for the MDE to increase the 2010 payable 2011 debt service levies for districts receiving the debt service equalization aid to cover potential proration of the aid.

OMNIBUS PENSION BILL, PERA AND TRA

Increases employee and employer contributions rates for various public employee pension programs:

- **PERA** – Employee and employer contribution rates for PERA Coordinated Plan will increase by 0.25% effective January 1, 2011.
  - Employee rates from 6% to 6.25%
  - Employer rates from 7% to 7.25%
- **TRA** – Rates are currently 5.5% and will rise by 0.5% annually over a four year period beginning July 1, 2011. TRA automatic 2.5% annual post retirement adjustment is suspended for 2011 and 2012 followed by a 2% increase until the plan becomes 90% funded.

OPEB BONDING AND LEVIES

Voter approval required for bonds issued after October 1, 2009. Any new levy to fund annual other post employment benefits (OPEB) expense initiated with taxes payable is capped. Pay 2010 levy was prorated at 60.4%. Currently, the fiscal year Pay 2011 levy is prorated at 100%.

STAFF DEVELOPMENT

The staff development reserve is temporarily suspended for fiscal years 2010 and 2011. The reserve is equal to 2% of the district’s basic general education revenue.
EARLY CHILDHOOD EDUCATION – SCHOOL READINESS PROGRAM

Defines which children are eligible to participate:

- Must be at least three years old on September 1,
- Have completed the Early Childhood Health and Developmental Screening within 90 days of the program enrollment and
- Meet one or more of the following criteria:
  - Qualify for free or reduced price lunch
  - Be an English language learner
  - Be homeless
  - Be eligible for special education services
  - Be identified through screening as having a potential risk factor that may influence learning or
  - Be identified as at risk by the district

School readiness aid must be used for eligible children, but children who do not meet eligibility criteria may participate in the program on a fee-for-service basis. This program is now an allowable use of general community education revenue.

SECURITY LENDING AGREEMENTS

This statute allows districts to enter into security lending agreements with qualified financial institutions that have a bank office located in Minnesota.