

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 21
DATE: January 18, 2005

RECOMMENDATION

REPORT: 2003-04 FINANCIAL REPORT ON
EASTERN MICHIGAN UNIVERSITY CHARTER SCHOOLS

ACTION REQUESTED

It is recommended that the 2003-04 Financial Report on Eastern Michigan University Charter Schools be received and placed on file.

SUMMARY

The 2003-04 Charter Schools Financial Report includes the following information for the eight charter schools authorized by EMU:

- **Eastern Michigan University as an Authorizing Body** – This document outlines the legal and statutory responsibilities for EMU as an authorizing body and fiscal agent for charter schools.
- **Charter Schools Funding Sources and Uses** – A summary of the Charter Schools Office activities as fiscal agent and the use of funds to operate the office.
- **Charter Schools Summary Financial Statements** – The 2003-04 year-end summary of balance sheets and statement of revenue, expenditures and changes in fund balances for EMU's eight charter schools.
- **Charter Schools Reporting Requirements** – A listing of monthly, quarterly and annual legal and financial reports required by the EMU Charter Schools Office.
- **Charter Schools Compliance Review Checklist** – A checklist of all quarterly financial reports required by the EMU Charter Schools Office.

FISCAL IMPLICATIONS

None.

ADMINISTRATIVE RECOMMENDATION

The proposed Board action has been reviewed and is recommended for Board approval.

University Executive Officer

Date

**EASTERN MICHIGAN UNIVERSITY
CHARTER SCHOOLS OFFICE
January 18, 2005**

Eastern Michigan University as an Authorizing Body

Eastern Michigan University (EMU) is the authorizing body of its public school academies (charter schools). Under Michigan's Revised School Code (Code), there are three important roles an authorizing body plays in establishing and monitoring public school academies. First, an authorizing body acts as "chartering authority" for a public school academy, issues a contract that establishes the public school academy as a public school and enables it to receive state funding for its operation. Second, an authorizing body performs oversight functions and monitors the actions of the public school academy's board of directors in its compliance with the contract and applicable law. Third, an authorizing body acts as "fiscal agent" for a public school academy, receives state school aid payments, forwards those payments to the school and requires various financial reports, including the annual audit.

Charter Authority of an Authorizing Body

Authorizing bodies, as issuers of public school academy contracts, perform several charter authority functions related to the establishment of public school academies: a) review and approve public school academy applications; b) establish the method of selection for public school academy board members; c) issue public school academy contracts; d) report violations of applicable law to the public school academy board of directors and/or the governmental agency required by law to enforce and administer a particular statute or rule; and e) enforce and revoke public school academy contracts.

General Oversight Responsibilities of an Authorizing Body

Section 502 (4) of the Code, MCL 380.502(4) (emphasis added) provides as follows:

- (4) An authorizing body shall oversee, or shall contract with an intermediate school district, community college, or state public university to oversee each public school academy operating under a contract issued by the authorizing body. *The oversight shall be sufficient to ensure that the authorizing body can certify that the public school academy is in compliance with statutes, rules and the terms of the contract.*

Section 507(1) of the Code, MCL 380.507(1) (emphasis added), defines authorizing body oversight as follows:

- (1) The authorizing body for a public school academy is the fiscal agent for the public school academy. A state school aid payment for a public school academy shall be paid to the authorizing body that is the fiscal agent of the public school academy, which shall then forward the payment to the public school academy.

An authorizing body has the responsibility to oversee a public school academy's compliance with the contract and all applicable laws....

The Code sections are the only provisions that directly speak to authorizing body oversight duties. In general, the kind of oversight being performed by authorizing bodies is typically outlined in the contract.

Fiscal Agent Oversight Responsibilities of an Authorizing Body

Pursuant to the Revised School Code and the State School Aid Act, the authorizing body acts as the fiscal agent of the public school academy for the limited purposes of receiving state school aid funds. Other provisions of the Code and the Act provide that the public school academy board of directors is responsible for the daily management and oversight of the public school academy. This daily oversight includes actions such as the adoption of the budget, receipt and disbursement of school funds and the hiring of a certified public accountant to perform an independent annual financial audit. By contrast, the authorizing body has no authority to manage the financial aspects of the school or approve expenditures made on behalf of the school.

The Code requires authorizing bodies to act as the fiscal agent for the public school academy's state school aid funds (MCL 380.507). Neither the Code nor the Act, however, requires or permits authorizing bodies to determine the amount of state school aid to be received by the public school academy or whether a particular public school academy is eligible to receive such payments. Section 20(6) of the Act, MCL 388.1620(6), provides in part that state school aid funds for a particular public school academy shall be allocated to its authorizing body for forwarding to the public school academy. This language is identical to the language included in section 507(1) of the Code.

Role of the Michigan State Board of Education in Oversight of Public School Academies

The Michigan Constitution places general leadership and supervision over public schools in the State Board of Education. In addition, the State Board, Superintendent of Public Instruction and the State Department of Education are statutorily required to oversee various aspects of public education and enforce the law relating to public education including public school academies.

No provision of the Michigan Constitution mentions authorizing bodies. Authorizing bodies are legislative entities that have been given statutory powers to authorize the establishment of public school academies and provide standards of accountability for public school academies. In addition, an authorizing body's oversight responsibilities for public school academies must be consistent with the rules and guidelines established by the State Board, the Superintendent of Public Instruction and the Department of Education. In particular, one Code section illustrates

the hierarchy of public oversight for public school academies. Section 1281 of the Code sets forth some of the State Board supervisory responsibilities for public school academies:

- require each public school academy board of directors and the officers of each of those boards to observe the laws relating to schools;
- prescribe appropriate uniform pupil and finance accounting records for use in public school academies and promulgate rules for their adoption;
- require each public school academy board of directors to carry out the state board's recommendations relative to the safety of school buildings, equipment and appurtenances, including any condition that may endanger the health or life of pupils;
- the State Board may examine and audit the official records and accounts of public school academies and may compel proper accounting by legal action instituted by direction of the attorney general; and
- grant waivers to public school academies from the State Board or Department of Education rules. (MCL 380.1281)

To the extent that authorizing bodies are part of the State's public education system, the State Board has the constitutional authority to oversee the functions performed by authorizing bodies. The Code also gives the State Board the right to suspend an authorizing body from issuing any new contracts if the authorizing body is not "engaging in appropriate continuing oversight."

5.

EASTERN MICHIGAN UNIVERSITY
CHARTER SCHOOLS FUNDING SOURCES AND USES
FOR THE YEAR ENDED JUNE 30, 2004

FISCAL AGENT ACTIVITY (Accrual basis)

Charter School Funding Received from the State of Michigan	\$25,893,626.96
Less State Aid Disbursements Directly to Schools	(\$22,390,429.72)
Less Loan and Bond Payments on Behalf of Schools	(\$2,770,679.79)
EMU Charter Schools Departmental Revenue	732,517
Carry Forward Fund Balance	9,613
EMU Charter School Office Funding Source	<u>\$ 742,131</u>

CHARTER SCHOOLS OFFICE USES OF FUNDING (Accrual basis)

Personnel Wages and Benefits Included: Director, Assistant Director, Administrative Assistant, Accountant, and $\frac{1}{3}$ Attorney	\$ 339,905
Direct Aid to Charter Schools The Charter Schools Office supported schools with direct return of funding for teacher development, academic student testing, school board training and policy development, and student enrichment programs.	232,970
Supplies Services and Maintenance Significant items included printing, updated computer equipment, organizational and professional dues and memberships, and related office and field expenditures.	62,706
Indirect Cost The Charter School Department reimburses Eastern Michigan University for its support of the program at a rate consistent with the off campus IDC rate. This support includes such items as administrative overhead, space utilization, and other facilities costs.	99,107
Travel The Director, Assistant Director, Attorney, and Accountant travel regularly to the schools for board meetings, oversight and consultative visits. They also attend informational and training conferences and workshops on a regular basis.	7,442
Total Uses of Funding	<u>\$ 742,131</u>

6.

SCHEDULE OF EXPENDITURES AND GRANTS
MADE TO OR ON BEHALF OF CHARTER SCHOOLS

FISCAL YEAR 2003 - 2004

SCHOOL	AMOUNT (Prof. Dev. Grants)	AMOUNT (Expenditures)	TOTAL AMOUNT
ABT Total	22,995.00	2,050.00	25,045.00
AALC Total	4,678.00	6,291.93	10,969.93
CCDA Total	25,000.00	1,249.83	26,249.83
EDOAK Total	19,135.00	20,604.80	39,739.80
GAUD Total	27,600.00	5,354.41	32,954.41
GBA Total	25,000.00	15,163.16	40,163.16
GLA Total	21,900.00	8,804.78	30,704.78
HOPE Total	19,487.00	7,656.00	27,143.00
Grand Total	165,795.00	67,174.91	232,969.91
REASON FOR EXPENDITURE			TOTAL AMOUNT
PROFESSIONAL DEVELOPMENT GRANTS			165,795.00
ACADEMIC TESTING			46,749.91
BOARD POLICIES and TRAINING			13,175.00
CULTURAL ENRICHMENT			2,250.00
TEACHER MAPSA CONFERENCE ATTENDANCE			5,000.00
Grand Total			232,969.91

CHARTER SCHOOLS SUMMARY FINANCIAL STATEMENTS

CHARTER SCHOOLS SUMMARY BALANCE SHEET GENERAL, SPECIAL REVENUE, AND DISTRICT WIDE FUNDS JUNE 30, 2004 - AUDITED

	Academy for Business & Technology	Ann Arbor Learning Community	Commonwealth Community Development Academy	Edison - Oakland Academy	Gaudior Academy	Grand Blanc Academy	Great Lakes Academy	Hope Academy	Total
Assets									
Current Assets	866,882	314,218	1,698,165	2,467,194	509,169	783,088	1,205,297	859,505	8,703,518
Other Assets	1,099,387	107,980	922,347		4,665,844	10,370,661	4,031,872	1,124,854	22,322,945
Total Assets	1,966,269	422,198	2,620,512	2,467,194	5,175,013	11,153,749	5,237,169	1,984,359	31,026,463
Liabilities									
Current Liabilities	849,548	71,759	270,125	2,398,726	236,305	668,620	257,745	422,569	5,175,397
Other Liabilities	303,988	24,947	5,103		3,075,000	5,544,427	1,779,926		10,733,391
Total Liabilities	1,153,536	96,706	275,228	2,398,726	3,311,305	6,213,047	2,037,671	422,569	15,908,788
Reserves and Fund Balance									
Investment in Capital Assets	795,399	83,033	917,244		1,590,844	4,826,234	2,251,946	1,124,854	11,589,554
Current Fund Balance	17,334	242,459	1,428,040	68,468	272,864	114,468	947,552	436,936	3,528,121
Total Liabilities, Reserves, and Fund Balance	1,966,269	422,198	2,620,512	2,467,194	5,175,013	11,153,749	5,237,169	1,984,359	31,026,463

CHARTER SCHOOLS SUMMARY STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES GENERAL AND SPECIAL REVENUES FUNDS YEAR ENDED JUNE 30, 2004 - AUDITED

	Academy for Business & Technology	Ann Arbor Learning Community	Commonwealth Community Development Academy	Edison - Oakland Academy	Gaudior Academy	Grand Blanc Academy	Great Lakes Academy	Hope Academy	Total
Revenue and Other Financing Sources									
State	3,583,319	811,156	4,444,025	6,307,387	1,515,889	3,305,077	2,418,135	3,546,941	25,931,929
Other	414,664	43,952	877,025	685,246	171,867	427,199	404,260	448,851	3,473,064
Total Revenue and Other Financing Sources	3,997,983	855,108	5,321,050	6,992,633	1,687,756	3,732,276	2,822,395	3,995,792	29,404,993
Expenditures and Other Financing Uses									
Instruction	1,786,156	465,452	2,261,036	3,105,582	934,758	1,564,785	1,198,264	2,169,085	13,485,118
Supporting Services	2,216,883	308,734	3,299,329	3,674,926	643,944	1,590,405	1,337,885	1,873,168	15,145,274
Other	422,573		80,453	17,301	63,120	755,659	249,570	79,977	1,668,653
Total Expenditures and Other Financing Uses	4,425,612	774,186	5,640,818	6,997,809	1,641,822	3,910,849	2,785,719	4,122,230	30,299,045
Excess of Revenue and Other Financing Sources Over Expenditures, and Other Financing Uses	(427,629)	80,922	(319,768)	(5,176)	45,934	(178,573)	36,676	(126,438)	(894,052)
Fund Balance, Beginning of Period	444,963	161,537	1,747,808	73,644	226,930	293,041	910,876	563,374	4,422,173
Fund Balance, End of Period	17,334	242,459	1,428,040	68,468	272,864	114,468	947,552	436,936	3,528,121

Eastern Michigan University
Charter Schools Office

Public School Academy
Reporting Requirements
2004-2005

8.

Submit to by these due dates:
Director of Charter Schools
207 Welch Hall
Ypsilanti, MI 48197

REPORTS	PERIOD COVERED / EMU RETENTION SITE	DUE DATE
Board Approved Tentative Budget: <i>Michigan School Accounting Manual Budget and Appropriation guidelines</i>	Yearly / Accounting	6/30/04
Business Office Survey and Org Chart	Yearly / Accounting	7/15/04
Nonprofit Corp. Information Update (w/changes) or (wo/changes): <i>Michigan Dept Labor and Economic Growth Forms</i>	Yearly / Charter Schools Office	10/01/04
Annual A-133 Single Audit (if required); only if over \$500K in Federal funds expended: <i>US Office of Management and Budget Circular A-133</i>	Yearly / Accounting	10/15/04
Annual Audited Financial Statements and Management Letter	Yearly / Accounting	10/15/04
Confirmation of FID acceptance: <i>Michigan Financial Information Database</i>	Yearly / Accounting	11/15/04
Quarterly Financial Reports (not GAAP):	07/01-09/30 07/01-12/31 07/01-03/31 07/01-06/30	11/15/04 2/15/05 5/15/05 8/15/05
Combined Balance Sheet - All Fund Types and Account Groups	/ Accounting	
Statement of Revenue and Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund		
Statement of Revenue and Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund - Budget vs Actual		
Bank Statements with Reconciliations		
Reconciliation-Booked Rev. to State Aid Status Report: <i>Payment Information</i>	Quarterly / Accounting	With Quarterly Reports
AR Aging Schedules 30/60/90	Quarterly / Accounting	With Quarterly Reports
41 Payroll Form(s) <i>Employers Quarterly Federal Tax Return & Instructions</i>	Quarterly / Accounting	With Quarterly Reports
Quarterly Financial Performance Assessment	Quarterly / Accounting	With Quarterly Reports
Board Response to Management Letter and Comments	Yearly / Accounting	11/30/04
Qualifying Statement copy of filing: <i>Municipal Finance Forms</i>	Yearly / Accounting	12/31/04
Board Approved Amended Budget (or statement that budget has been reviewed and no amendment was needed): <i>Michigan School Accounting Manual Budget and Appropriation guidelines</i>	Yearly / Accounting	4/30/05
Board Approved Budget Timeline (on prescribed format)	Yearly / Accounting	6/01/05
Signed and approved Minutes from Board Meetings	Monthly / Charter Schools Office	Following Month
Loan or Lease Agreements		ASAP
Audit Firm Engagement Letter		ASAP
Contracts for Banking Services and Investment Management		ASAP
Insurance Contracts [General/Public Liability, Errors & Omissions (Including Directors & Officers, and School Leaders Errors & Omissions), Auto Liability (Owned & Non-Owned), Workers' Compensation, Crime (Including Employee Dishonesty), Employment Practices Liability, Property]		ASAP
Construction/Renovation Contracts		ASAP
Grant Awards from Federal, State, Local or Private Sponsors		ASAP
New or revised Board Policies		ASAP
Other Contracts or Agreements		ASAP
Items Bid over \$18,345 (amount subject to annual update) and		ASAP
Big Vendor (name, address and total bid amount)		ASAP
Copies of all Complaints or Legal Actions whether Filed in Court or With an Administrative Agency.	As Occur / Charter Schools Office	Within 10 days of receipt by PSA
Copies of any correspondence from any governmental agency, requiring a response and copies of the response.	As Occur / Charter Schools Office	Within 10 days of receipt by PSA

Requirement	Timing	ACAD. FOR BUSINESS & TECH (Leona)	ANY ARBOR LEARNING COMM.	COMMONWEALTH ACADEMY	EDISON - OAKLAND ACADEMY (Edison)	GAUDIOR ACADEMY	GRAND BLANC ACADEMY (Mosaica)	GREAT LAKES ACADEMY (Beacon)	HOPE ACADEMY
BOARD APPROVED TENTATIVE BUDGET	YEARLY / 06/30 of previous FY		This item indicated with "YES", "NO" or "N/A"		If in noncompliance, cell appears shaded				
BUSINESS OFFICE SURVEY & ORG CHART	YEARLY / 7/15		This item indicated with "YES", "NO" or "N/A"						
FINAL AUDIT & MGMT LETTER ¹	YEARLY / 10/15		This item indicated with "YES", "NO" or "N/A"						
A - 133 SINGLE AUDIT	YEARLY if >\$500K led money rec'd / 10/15		This item indicated with "YES", "NO" or "N/A"						
FID CONFIRMATION	YEARLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
BOARD RESPONSE TO MGMT LETTER ¹	YEARLY / 11/30		This item indicated with "YES", "NO" or "N/A"						
QUALIFYING STMT	YEARLY / 12/31		This item indicated with "YES", "NO" or "N/A"						
BOARD APPROVED AMENDED BUDGET ²	YEARLY / 04/30		This item indicated with "YES", "NO" or "N/A"						
BOARD APPROVED BUDGET TIMELINE	YEARLY / 06/01		This item indicated with "YES", "NO" or "N/A"						
09/30 QUARTERLY ASSESSMT	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
09/30 BALANCE SHEET	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
09/30 STMT OF REV & EXP	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
09/30 STMT OF REV & EXP-BUDGET VS ACTUAL	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
REV. RECON., BOOKED TO STATE AID STATUS REPT.	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
A/P, A/R AGING	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
BANK REC & STMTS	MONTHLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
941 FORMS ³	QUARTERLY / 11/15		This item indicated with "YES", "NO" or "N/A"						
INSURANCE APPEARS "MUSIC" COMPLIANT ⁴	CURRENT		This item indicated with "YES", "NO" or "N/A"						
DEFICIT CURRENT			Indicated with "NO" or \$\$Amount of Deficit						
DEFICIT PREVIOUS REPORT			Indicated with "NO" or \$\$Amount of Deficit						

Notes:

- When audits are issued, note 1 will indicate which academies did not receive management letters from their auditors.
- "No" in this row means no amended budgets have been received. "Yes" means at least one amended budget has been received subsequent to original budget.
- "N/A" in this row means employees are management company employees and 941 is filed for management company in aggregate.
- Insurance is currently under review.