



THE  
FISCAL  
PERFORMANCE REPORT

2012-2013

## OUR MISSION

*To transform public education through our state and national leadership and gold standard approach to chartering schools, overseeing and supporting their operations, and evaluating their performance.*

## OUR VISION

*We envision a diverse and dynamic public education marketplace that fosters academic excellence for all children.*

———— THE GOVERNOR JOHN ENGLER ————  
**CENTER FOR CHARTER SCHOOLS**  
———— CENTRAL MICHIGAN UNIVERSITY ————

The Governor John Engler Center for Charter Schools  
Central Michigan University | Mount Pleasant, MI 48859  
(989) 774-2100 | [www.TheCenterForCharters.org](http://www.TheCenterForCharters.org)



Cynthia M. Schumacher  
Executive Director

To the dedicated board members serving charter public schools authorized by Central Michigan University:

On behalf of our entire team at The Governor John Engler Center for Charter Schools (Center), I am pleased to provide you with the third annual Fiscal Performance Report (FPR). The FPR focuses on the Academy's fiscal performance throughout the 2012-2013 school year as it relates to fiscal activities outlined in the Charter Contract. As the third of three reports in the Performance Suite, the FPR serves as a tool to help the Academy work efficiently toward its goals.

Maintaining the Academy's fiscal health and long-term sustainability is essential to ensuring a successful and viable school. The FPR provides information that will assist in ensuring that the Academy's fiscal operations are supporting the academic program of your school. In addition to the Academic Performance Report (APR) and the Operational Performance Report (OPR), the information within this report should be used in conjunction with other data when making decisions.

As your partner, the Center welcomes your feedback in our continuous efforts to maximize the usefulness of this information for the Academy's team. I am sincerely grateful for your work as we relentlessly pursue excellence for Michigan students. Your dedication to creating quality educational opportunities will help provide each and every child with the tools to be successful in college, work and life.

Thanks again for keeping kids first!

A handwritten signature in black ink that reads "Cindy Schumacher". The signature is written in a cursive, flowing style.

Cynthia M. Schumacher  
Executive Director

# REPORT SUITE

*The annual performance report suite is made up of three distinct reports: the Academic Performance Report, the Operational Performance Report and the Fiscal Performance Report, as well as one capstone report - the Annual Scorecard of School Performance.*

*These reports, shown to the right, cover each of the primary content areas and are intended to provide a greater understanding of the Academy's holistic performance for a complete academic year (July through June).*

*The first report is distributed in June when the academic data becomes available, with the operational and fiscal reports following suit. The final report, the Scorecard, is released in the winter of the following year, as the summary of the three performance reports.*



## ACADEMIC PERFORMANCE REPORT

The first performance report, published annually in the summer, provides a comprehensive overview of the Academy's academic outcomes for the academic year just completed.



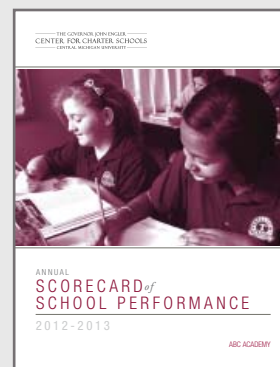
## OPERATIONAL PERFORMANCE REPORT

The second performance report, published annually in the fall, provides a comprehensive overview of the Academy's operational outcomes for the academic year ending in June.



## FISCAL PERFORMANCE REPORT

The third and final performance report, published annually in the winter, provides a comprehensive overview of the Academy's financial outcomes for the previous academic year.



## SCORECARD OF SCHOOL PERFORMANCE

As a summary of the three performance reports, published annually in the winter, the Scorecard provides an overview of the Academy's performance, as it relates to the Charter Contract.

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# ACADEMY OVERVIEW

## DEMOGRAPHICS FOR THE 2012-2013 SCHOOL YEAR

Knowing your students and which communities they come from helps in understanding the make-up of the Academy and the student population it serves. The data displayed in this section represents a summary of the Academy's demographics for the 2012-2013 school year and provides an overview of trending and comparison information.

### ABC Academy

Date Opened  
9/1/1995

Grades Served  
K-12

Charter Contract  
2012-2017

Management  
Self-managed

Mission Statement  
Prepare students academically for success in college, work and life.

Address  
1234 Abacus Ave.  
Scholastic, MI 42860

Fig. 1

### Total Enrollment by Year

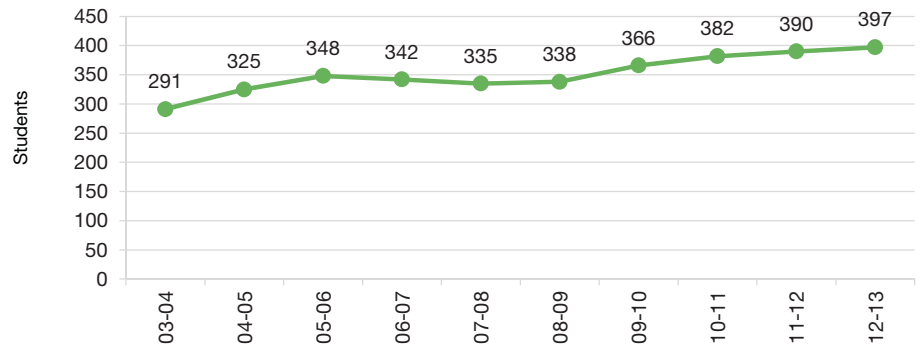


Fig. 2

### Number of Students in Each Grade

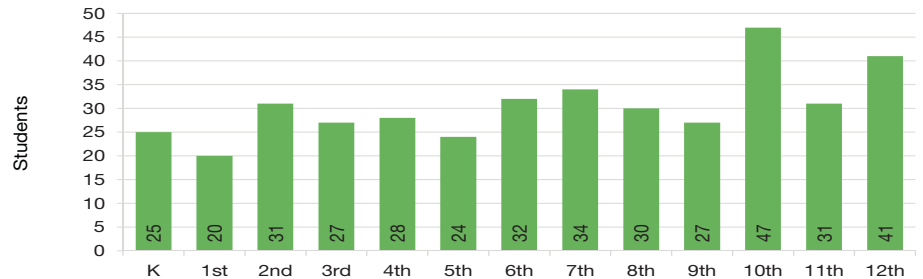


Fig. 3

### Length of Student Enrollment

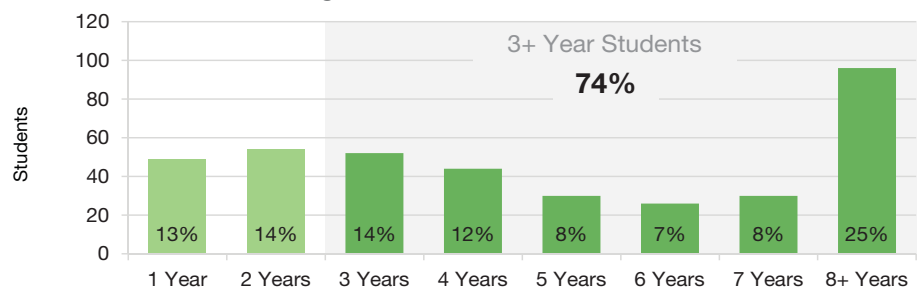


Fig. 4

### Racial/Ethnic Breakdown

Ethnicity	Your School	CMU Average	State Average
American Indian or Alaskan Native	0.3%	0.2%	0.8%
Asian American	2.0%	2.6%	2.7%
Black or African American	65.9%	51.2%	18.8%
Native Hawaiian or Other Pacific Islander	0.0%	0.1%	0.1%
White	22.3%	38.4%	69.3%
Hispanic or Latino	2.3%	5.0%	6.1%
Multi-Racial	7.2%	2.5%	2.2%

Fig. 5

## MEAP and MME Achievement Results

SUBJECT/ GRADE	2012-2013	2011-2012	CHANGE	COMPOSITE RESIDENT DISTRICT	STATE AVERAGE
Reading 3	61.7%	56.4%	5.3%	72.3%	66.5%
Reading 4	63.6%	69.0%	-5.4%	67.6%	68.1%
Reading 5	79.3%	60.0%	19.3%	74.4%	70.4%
Reading 6	66.7%	70.6%	-3.9%	72.5%	68.2%
Reading 7	77.4%	48.0%	29.4%	67.6%	62.0%
Reading 8	78.9%	44.0%	34.9%	65.5%	65.7%
Reading 11	72.7%	57.7%	15.0%	59.8%	53.5%
Math 3	42.6%	20.5%	22.1%	37.0%	40.9%
Math 4	52.9%	23.3%	29.6%	40.2%	44.9%
Math 5	33.3%	36.7%	-3.4%	39.3%	45.7%
Math 6	24.2%	35.3%	-11.1%	37.3%	40.2%
Math 7	39.4%	24.0%	15.4%	40.8%	38.4%
Math 8	26.3%	12.5%	13.8%	32.4%	32.5%
Math 11	28.1%	20.0%	8.1%	34.5%	28.6%

\*Family Education Rights and Privacy Act (FERPA) – Federal law that prohibits student identifiable education data from being publicly disseminated. A group of 10 or less students is considered to contain student identifiable data.

-- No Data Available.

## Free and Reduced Price Lunch Eligibility

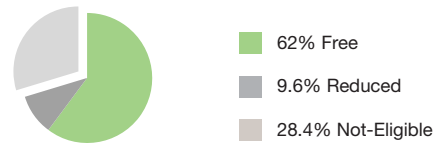


Fig. 7

## General and Special Education Status

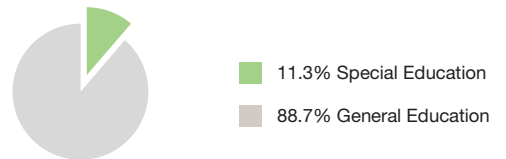


Fig. 8

Fig. 6

## English Language Learners (ELL)

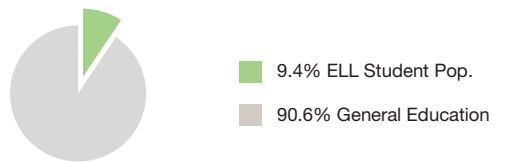
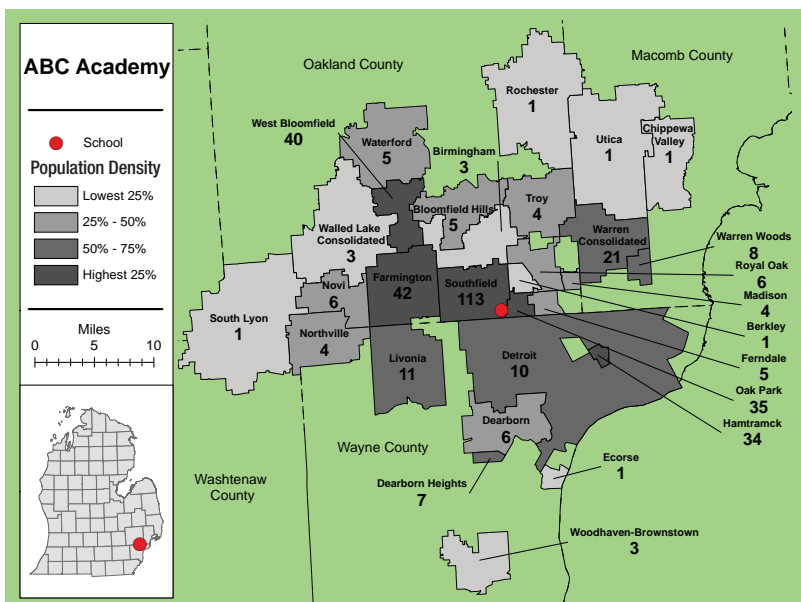


Fig. 9

# COMPOSITE RESIDENT DISTRICT

## WHERE YOUR STUDENTS COME FROM

The Composite Resident District (CRD) is a breakdown of the traditional public school districts students would be assigned to if they were not enrolled in the Academy. Below is a list of those districts along with an illustrated map showing the Academy (red dot), including the surrounding traditional public school districts. Due to geographical constraints, the map may not show all the districts. Please refer to the list for a complete breakdown.



Students' Resident District	Number of Students from Resident District	Percent of Students from Resident District
Southfield Public School District	113	29.7%
Farmington Public School District	42	11.0%
West Bloomfield School District	40	10.5%
Oak Park, School District of the City of Hamtramck, School District of the City of Warren Consolidated Schools	35	9.2%
Livonia Public Schools School District	34	8.9%
Detroit City School District	21	5.5%
Warren Woods Public Schools	11	2.9%
Dearborn Heights School District #7	10	2.6%
Dearborn City School District	8	2.1%
School District of the City of Royal Oak	7	1.8%
Novi Community School District	6	1.6%
Bloomfield Hills Schools	6	1.6%
Waterford School District	5	1.3%
Ferndale Public Schools	5	1.3%
Northville Public Schools	5	1.3%
Madison District Public Schools	4	1.0%
Troy School District	4	1.0%
Other	15	3.9%

Total Number of Districts: 28

Fig. 10

# SCHOOL FINANCE

## OVERVIEW

### Where Does Your Money Come From?

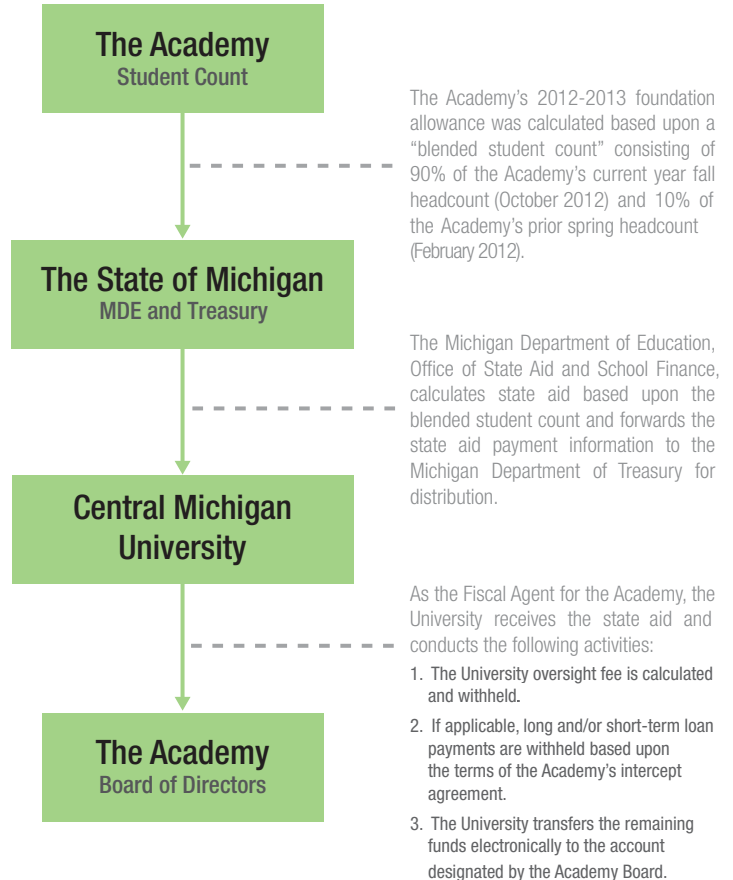
Fiscal management is critical to all organizations and charter public schools are no exception. Each charter public school is basically a multi-million dollar, non-profit entity that is accountable to taxpayers. As such, each board of directors is entrusted with significant public resources and has contractual obligations including the stated educational goal and related measures in its Charter Contract. It is critical that each board member has a thorough understanding of where and how the school's revenues are generated in order to effectively manage the outflow.

In 1994, Proposal A significantly changed the way public schools in Michigan were funded, and led to the establishment of charter public schools. Although all schools in Michigan receive a "foundation allowance" (or per-pupil funding), charter public schools are unlike their traditional counterpart in that they do not have taxing authority.

Your Academy's revenue can easily be divided into categories based on the source of revenue: local, state, federal or other. In each of these categories, the dollars would be either restricted – meaning the funds can only be used for a specific purpose – or unrestricted – funds that are available for general use.

Within these state and federal categories, there are significant sub-categories, referred to as categorical dollars, including special education, at-risk and title funding. Examples of local revenue include contributions or funding from local foundations, fee based school programs or student activities. Finally, the 'other' category would account for proceeds from long-term debt transactions and other unique transfer situations.

### The Flow of State Aid



### The Flow of State Aid

School districts and charter public schools alike are funded through the State School Aid Act and receive funding based upon the foundation allowance (or per-pupil funding). During 2012-2013, the maximum foundation allowance a charter public school could receive was \$7,110. The state's payment schedule provides for 11 state aid payments per year – beginning in October through the following August. These payments include the basic foundation allowance as well as categorical funding, including but not limited to, at-risk and special education dollars. In accordance with the Charter Contract, the University is the Fiscal Agent for the Academy Board for the limited purpose of receiving state aid payments. Although the Charter Contract allows up to 10 days, the University makes every attempt to process the state aid the same day it is received from the Michigan Department of Treasury. The Revised School Code allows the University to withhold 3% of all state aid but the University Board of Trustees has chosen to recognize the special needs and specific counts under categorical funding so it only applies the 3% to funds for general operating purposes. As a result, the effective rate applied for the University oversight fee for the 2012-2013 fiscal year was 2.81%.



# ACCOUNTING STRUCTURE

## OVERVIEW

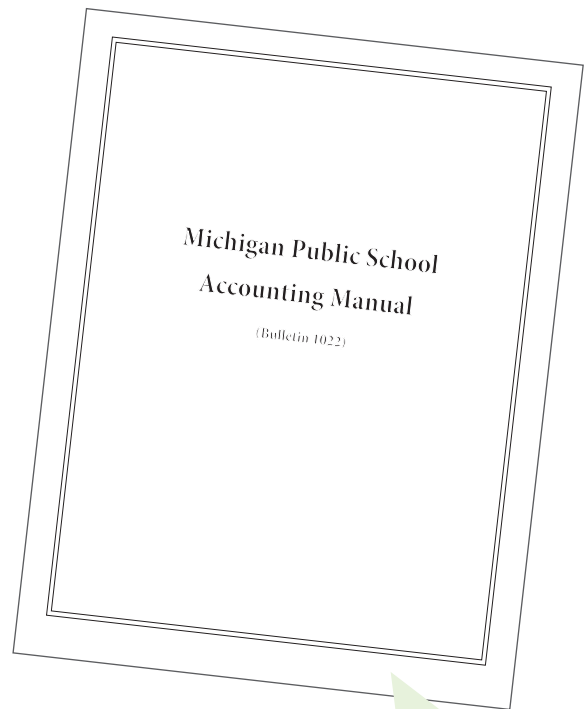
### Accounting Structure: The Basics

The Michigan Public School Accounting Manual, commonly referred to as Bulletin 1022, serves as the mandatory guide to the uniform classification and recording of accounting transactions for all Michigan school districts, including intermediate and local districts, as well as charter public schools. It was adopted in 1963 and underwent significant revisions in 1976, 1988 and 2004; it conforms to the 2003 federal Financial Accounting for Local and State School Systems. Revisions occur in order to conform to changes from the Governmental Accounting Standards Board and Generally Accepted Accounting Principles along with changes in legislation related to state and federal financial reporting requirements.

The primary purpose of the Michigan Public School Accounting Manual is to provide a standard framework for reporting financial data to the state. It is important that all schools recognize that the standardization of definitions and classifications is critical to the data gathering process. The Michigan Public School Accounting Manual provides the minimum requirements, thus allowing comparability in the recording and reporting of financial information for all school districts, regardless of size.

State law and the Charter Contract require the Academy to follow public sector accounting principles as well as the prescribed chart of accounts found in the Michigan Public School Accounting Manual. Annually, the Academy is required to submit its audited financial statements, as prepared by the board-approved independent certified public accountant, to both the Michigan Department of Education (MDE) and to the Center.

In addition, the Academy is required to submit its Financial Information Database (FID) data set to the State's Center for Educational Performance and Information (CEPI), as well as the Center. These data sets are used to compile significant reports, including required state and federal reporting. **Stakeholders, including legislators and bondholders, may refer to these public reports and could make decisions based upon the data presented within them. Therefore, it is crucial that the Academy Board make certain that systems and processes are in place to ensure a high level of data accuracy.**



For more information on the Michigan Public School Accounting Manual (Bulletin 1022), please visit:

[http://www.michigan.gov/mde/0,4615,7-140-6530\\_6605-21321--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-21321--,00.html)

# BUDGETING

## OVERVIEW

### Budgeting: The Basics

Developing and maintaining an effective operating budget is a critical function of the Academy Board. The Academy's budget should reflect a philosophy that supports the Academy's mission, vision and values and act as a financial plan; identifying the spending priorities and resources needed to deliver a quality educational program. As with traditional public schools, charter public schools follow specific laws surrounding the approval and administration of its budget. These laws are designed to offer transparency to the public.

The Uniform Budgeting and Accounting Act (UB&AA) requires budgets to be adopted annually prior to July 1st, the start of the fiscal year. Prior to adopting its budget, the Academy Board must first hold a public hearing as mandated by the Budget Hearings of Local Governments statute. The UB&AA and the Academy's Charter Contract Terms and Conditions outline specific budget requirements. For example, the UB&AA requires that the Board pass a General Appropriations Act, which is done by resolution, when formally approving the General Fund and Special Revenue Fund budget.

Another requirement of the UB&AA includes the Academy Board's designation, also by resolution, of a Chief Administrative Officer (CAO). The CAO has the responsibility to present the

budget recommendations and detail to the Board. Additionally, the CAO must monitor whether a balanced budget is being maintained and expenditures are controlled. When the CAO notifies the Board that the revenues are going to be less than estimated, or expenditures are going to be greater than those used to formulate the original budget, the Board must amend the budget.

A budget amendment should be approved by the Academy Board prior to the expenditures exceeding the current appropriation. Most charter public schools will amend the budget shortly after the fall pupil count in order to align revenue estimates with the actual enrollment. Furthermore, this provides the Board with an opportunity to adjust its expenditures accordingly. There is no authority to amend the budget after year end.

Both the UB&AA and the State School Aid Act prohibit a board from passing a deficit budget; however, it is permissible for the Academy to use unappropriated fund balance to cover a current year operating deficit. At no time should the Academy's fund balance fall below \$0. A deficit fund balance is considered "illegal" by the UB&AA as well as the State School Aid Act; as such, this would be considered a violation of the Charter Contract and warrant the issuance of a Notice of Intent to Revoke by the Center.

### Budget and Salary/Compensation Transparency Reporting

In July 2010, the State School Aid Act was amended (specifically, MCL 388.1618(2) and (3)) to include salary/compensation transparency reporting requirements for Michigan Public Schools in addition to the budget reporting requirements previously established. The legislation requires that the Academy's Budget and Salary/Compensation Transparency information be published on the Academy's website and available through a data link specifically titled "Budget and Salary/Compensation Transparency Reporting" on the Academy's Home Web Page. A summary of the Budget and Salary/Compensation Transparency Reporting guidelines can be found at: [http://www.michigan.gov/documents/mde/Budget\\_Transparency\\_Reporting\\_327912\\_7.pdf](http://www.michigan.gov/documents/mde/Budget_Transparency_Reporting_327912_7.pdf).

# BUDGETING

## THE CURRENT SCHOOL ENVIRONMENT

### Budgeting in the Current School Environment

Having sound budget practices is essential to fiscal success. It is important to create a budget that is conservative, aligns with the educational and operational needs of the Academy and is flexible to adjust for unanticipated events. Examples of such events may include:

- Lower than anticipated enrollment
- Reductions in funding
- Facility improvements
- New educational requirements

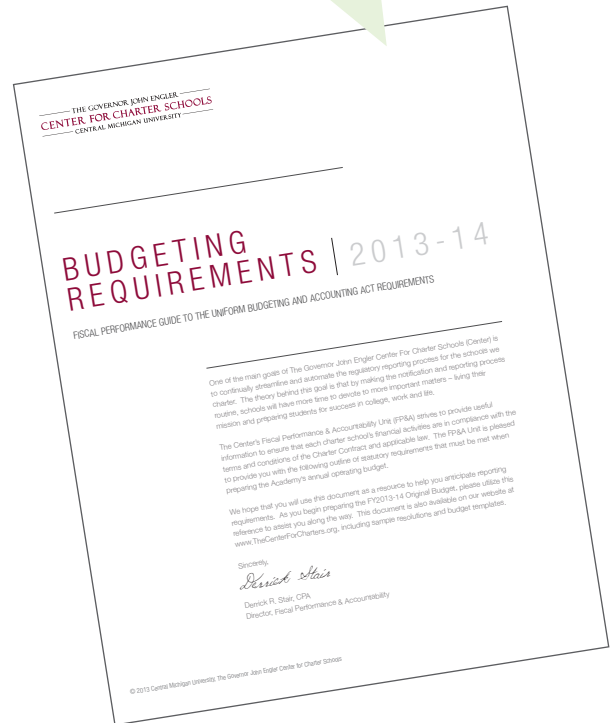
It is well understood that the Academy Board cannot plan for every possible event; however, there are many things it can do to mitigate a potential problem, including, but not limited to:

- Create multiple budget scenarios at various enrollment and funding levels
- Set aside funds for capital improvements or enrollment fluctuations
- Create a multi-year capital budget – facility, technology and transportation
- Establish board policy that requires a minimum fund balance

Annually, the Center publishes its Budgeting Requirements guide to assist the Academy Board through the various legally required steps that culminate in the approval of the Original Budget. A key component of the budget process is the formation of a budget timeline. While the Academy Board is required to approve the General Appropriations Act prior to July 1, preparing the budget can generally take several months. A detailed timeline provides a clear set of expectations for both the Academy's board and administration. While not required, the Center recommends that the Academy Board approve a timeline annually at the beginning of the budget process. This provides an opportunity to adjust the timeline based on either positive or negative lessons learned from the previous year's process.

For more information on the Budget Requirements Guide, please visit:

<http://www.TheCenterforCharters.org>  
→ Administrators



### Budget Timeline Example:

<b>January</b>	Budget requests are submitted internally
<b>February</b>	Requests are prioritized and cost estimates prepared
<b>March</b>	Budget is prepared and CAO presents to budget committee
<b>April</b>	Budget committee reviews, adjusts as necessary and presents to full board
<b>May</b>	Public budget hearing and budget approval
<b>June</b>	Budget approval (if not approved in May)

# REVENUE

## OVERVIEW

### Revenue: The Basics

As previously stated, the majority of the Academy's revenue comes from the State in the form of state aid (see p. 8). Unlike traditional public schools, charter public schools do not have taxing authority to raise funds for capital or technology investments, so facility, capital and technology projects must be paid for by using state aid funds.

For more information on Michigan's State School Aid Act, please visit:

<http://www.legislature.mi.gov/documents/mcl/pdf/mcl-act-94-of-1979.pdf>

Consistent with traditional public schools, charter public schools receive funding based upon a "blended student count." The 2012-2013 foundation allowance was calculated based upon a blended student count consisting of 90% of the Academy's current year fall headcount (October 2012) and 10% of the prior year's spring headcount (February 2012). Given the significance of these pupil counts, it is critical that the Academy's budget assumptions are based upon realistic enrollment estimates.

By law, the base foundation allowance received by a charter public school may not exceed the per-pupil base foundation allowance received by the local school district in which the Academy resides, or \$7,110 (for 2012-2013), whichever is lower. The Academy's enrollment, foundation allowance and total state revenue history are detailed in the accompanied charts.

### Your Academy's Revenue

	2009-2010		2010-2011		2011-2012		2012-2013	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues
Revenues								
Local	\$15,604	<1%	\$12,874	<1%	\$19,477	<1%	<b>\$14,522</b>	<1%
State	\$3,031,743	78%	\$3,307,009	85%	\$3,033,200	83%	<b>\$2,941,546</b>	<b>86%</b>
Federal	\$831,550	21%	\$574,891	15%	\$541,612	15%	<b>\$445,416</b>	<b>13%</b>
Other	\$0	0%	\$10,589	<1%	\$47,733	1%	<b>\$0</b>	<b>0%</b>
<b>Total Revenues</b>	<b>\$3,878,897</b>		<b>\$3,905,363</b>		<b>\$3,642,022</b>		<b>\$3,401,484</b>	

Fig. 11

# REVENUE

## ENROLLMENT & REVENUE TIMELINES

### Enrollment

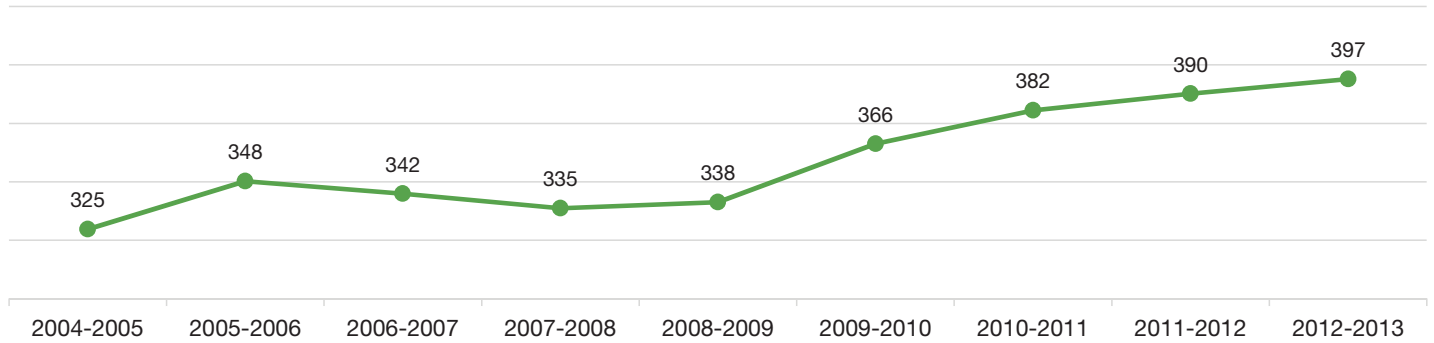


Fig. 12

### Per-pupil Foundation Allowance

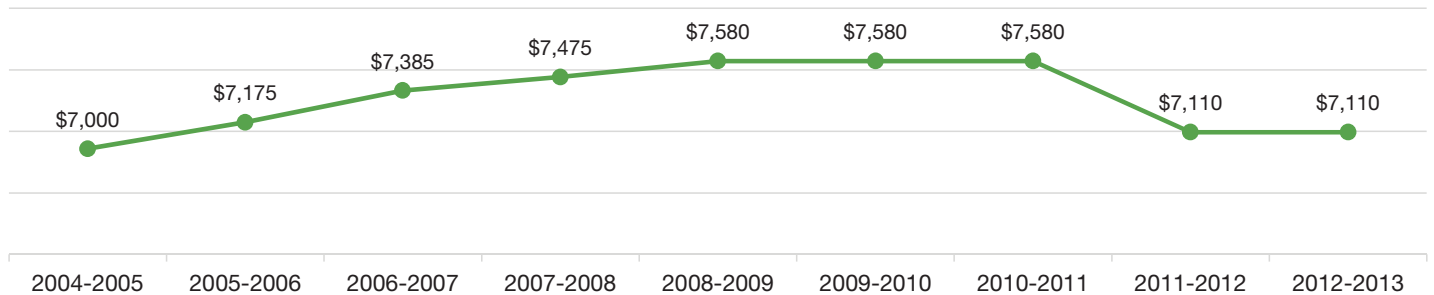


Fig. 13

### Total State Revenue (in millions)

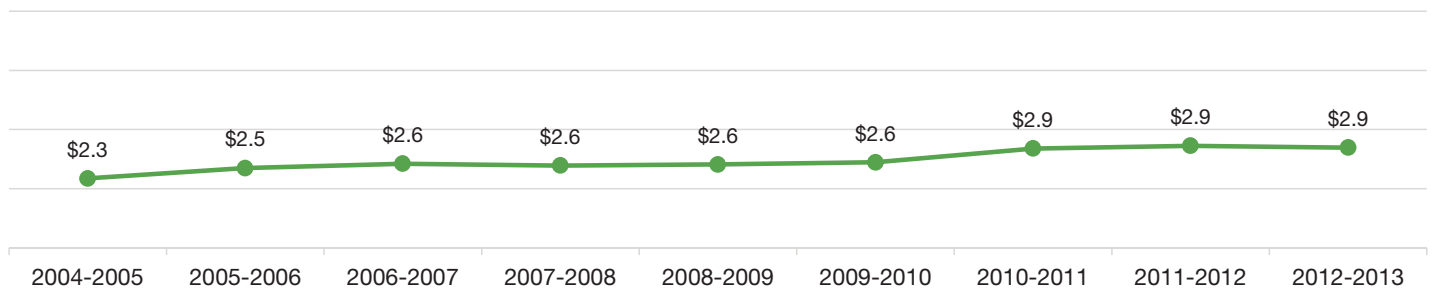


Fig. 14

# EXPENDITURES

## OVERVIEW

### Expenditures: The Basics

High performing academies generally adopt sound fiscal practices designed to maximize student achievement and support their mission and vision. Through effective allocation of resources and control of expenditures, the Academy is better able to recruit and retain highly effective teachers, provide a quality learning environment, meet the needs of struggling, at-risk or gifted students and ensure that the educational program, as defined in the Charter Contract, is fully implemented.

As fiscal stewards, the Academy Board is charged with ensuring that management efficiently controls costs while effectively delivering the quality educational program defined within the Charter Contract. Prudent spending and cost control should result in the Academy reporting a surplus of revenues over expenditures,

which accumulates as its fund balance. Below are the Academy's expenditures, which show the Academy's spending over the past four years.

The majority of the Academy's expenditures fall under two main categories: Instruction and Supporting Services. Instructional expenditures are related to activities dealing directly with teaching and learning. Supporting Services account for the non-instructional spending that supports the instructional program. A major component of Supporting Services are occupancy expenditures, which are associated with building operations and maintenance in addition to debt service obligations. The charts on the facing page reflect the Academy's spending related to these expenditure categories for the fiscal year ending June 30, 2013.

### Your Academy's Expenditures

	2009-2010		2010-2011		2011-2012		2012-2013	
	Amount	Percent of Expenditures	Amount	Percent of Expenditures	Amount	Percent of Expenditures	Amount	Percent of Expenditures
<b>Total Revenues</b>	<b>\$3,878,897</b>		<b>\$3,905,363</b>		<b>\$3,642,022</b>		<b>\$3,401,484</b>	
Expenditures								
Instruction	\$1,893,214	49%	\$1,835,670	48%	\$1,471,400	42%	<b>\$1,385,607</b>	<b>42%</b>
Basic	\$1,032,451		\$1,246,569		\$1,022,366		\$943,685	
Added Needs	\$860,763		\$589,101		\$449,034		\$441,922	
Supporting Services	\$1,333,345	35%	\$1,540,947	40%	\$1,479,587	43%	<b>\$1,320,082</b>	<b>40%</b>
Pupil	\$78,468		\$30,325		\$82,652		\$106,584	
Instructional Staff	\$73,718		\$95,469		\$116,336		\$106,392	
General Administration	\$182,859		\$706,651		\$613,722		\$478,277	
School Administration	\$647,791		\$216,921		\$159,305		\$162,933	
Business	\$92,499		\$106,014		\$38,062		\$33,701	
Operations and Maint.	\$179,910		\$190,180		\$217,567		\$182,408	
Transportation	\$78,100		\$167,989		\$203,449		\$181,195	
Central	\$0		\$7,473		\$38,619		\$62,530	
Other	\$0		\$19,924		\$9,876		\$6,063	
Community Services	\$31,129	<1%	\$34,150	<1%	\$27	<1%	<b>\$610</b>	<b>&lt;1%</b>
Outgoing Transfers and Other Transactions	\$583,319	15%	\$431,159	11%	\$516,542	15%	<b>\$558,180</b>	<b>17%</b>
<b>Total Expenditures</b>	<b>\$3,841,007</b>		<b>\$3,841,926</b>		<b>\$3,467,556</b>		<b>\$3,264,480</b>	
Revenues over Expenditures	\$37,890	<1%	\$63,437	2%	\$174,466	5%	<b>\$137,004</b>	<b>4%</b>
Ending Fund Balance	\$192,506	5%	\$255,943	7%	\$430,409	12%	<b>\$567,414</b>	<b>17%</b>

Fig. 15

# EXPENDITURES

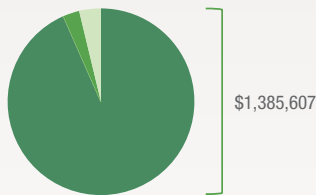
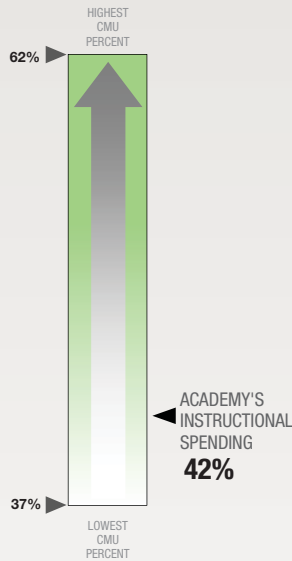
## EXPENDITURES BREAKDOWN

### INSTRUCTIONAL EXPENDITURES

These include teachers, teacher assistants, textbooks, classroom supplies and resources dealing directly with the instructional program. These are direct classroom expenditures.

#### Total Instructional Expenditures

2012-2013



- 93% Instructional Salaries, Benefits & Services
- 0% Textbooks & Educational Media
- 3% Equipment & Furniture
- 4% Other (including Supplies & Materials)

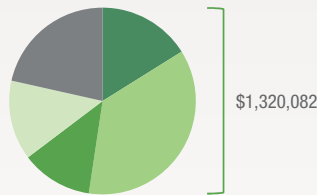
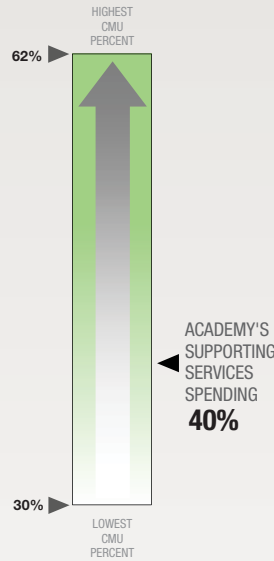
Fig. 16

### SUPPORTING SERVICES EXPENDITURES

These include the cost of services that provide administrative, technical and logistical support to facilitate and enhance instruction. This classification of expenditures includes non-classroom expenditures.

#### Total Supporting Services Expenditures

2012-2013



- 16% Pupil/Instructional Support
- 37% General Administration
- 12% School Administration
- 14% Operations & Maintenance
- 22% Other

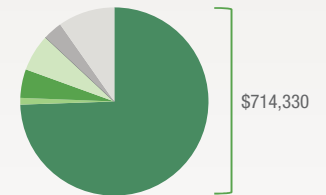
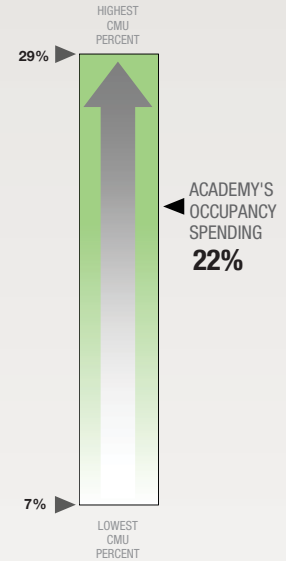
Fig. 17

### OCCUPANCY EXPENDITURES

These are a combination of expenditures related to keeping the physical plant open, clean and ready for daily use, which include lease payments, debt service, maintenance, improvements and other miscellaneous expenses related to the facility.

#### Occupancy Expenditures

2012-2013



- 75% Lease/Loans/Bonds
- 1% Janitorial & Security
- 6% Repairs & Maintenance
- 6% Utilities
- 0% Insurance & Bond Premiums
- 3% Capital Projects & Outlay
- 10% Other

Fig. 18

The Center acknowledges that there are differing models of management approaches utilized by academies and accounts for these differences through various reporting mechanisms. These mechanisms include all aspects of the Academy's financial reporting from budgets (original and amended) to the audited financial statements and associated management letter. To help put this information into perspective, this report includes comparison information, such as the industry standard and averages. These comparators should, however, be taken into context with other factors at the Academy as they may not accurately reflect long-term planning and other unknown influences that are unique and specific to the Academy.

# BORROWING HISTORY

## SHORT-TERM & LONG-TERM BORROWING

### Financings: The Basics

The financial market and access to facility financing have greatly evolved since the inception of charter public schools. Lenders credit much of this access and availability to the stability and success of charter public schools, as well as the strong oversight by authorizers, like CMU. Since charter public schools do not have the same general authority to borrow money like private corporations, nor do they have taxing authority like traditional public schools, prior to entering into a financial obligation, the Academy must first receive approval from the state – specifically the Department of Treasury (Treasury). This process is known as obtaining “qualified status.”

The easiest way to accomplish this is by submitting the Academy’s annual financial audit and completing the required submission by December 31<sup>st</sup> each year. In the event the Academy fails to obtain “qualified status,” it may still be able to enter into a financing; however, it will require approval from Treasury prior to each borrowing. This process is time-consuming and also has substantially higher costs associated with it. It is important to remember that when seeking “qualified status,” Treasury is not assessing the Academy’s credit quality; it only considers compliance with the requirements of the Revised Municipal Finance Act (PA 34 of 2001).

### Short-term & Long-term Borrowings

Since state aid payments are only distributed eleven (11) times, on or after the 20th of each month (October through August with no payment issued during the month of September), the Academy may need to utilize a State Aid Anticipation Note (SAAN), also known as a cash flow borrowing or “bridge loan” as a way to bridge the gap in state aid payments. The Academy has the authority to incur temporary debt for cash flow purposes (MCL 380.504a(e)). It also has authority to enter into a line of credit for cash flow borrowings; however, that requires specific approval from the Treasury (MCL 380.1225) in addition to the qualified status previously discussed. These SAAN’s cannot exceed 372 days or 70% of the Academy’s total state aid (MCL 380.1225).

The Academy also has authority to acquire real and personal property (MCL 380.504a(b)). As such, it also has authority to borrow money and issue bonds (MCL 380.504a(g)). Common structures for long-term, facility financings include:

- Bank Loan
- Bond Issuance
- Land Contract

See p. 21 for glossary

### Your Academy’s Borrowing History

Below is a table that represents your Academy’s financings over the past three years. The percentage rates for each borrowing are also included for the Academy’s short-term borrowings (12 months or less than 372 days) as of June 30, 2013, per the Academy’s short-term borrowing documents as received by the Center. Total outstanding long-term debt represents the Academy’s total long-term (more than 1 year) outstanding debt as of June 30, 2013, per the Academy’s audited financial statements.

	Academy Short-term Borrowing				CMU Average Short-term Borrowing		Total Outstanding Long-term Debt
	Borrowed Amount #1	Percentage Rate #1	Borrowed Amount #2	Percentage Rate #2	Borrowed Amount	Percentage Rate	
2010-2011	\$420,000	3.04%	--	--	\$957,884	3.43%	\$6,190,000
2011-2012	\$460,000	2.90%	--	--	\$877,018	3.39%	\$6,190,000
<b>2012-2013</b>	<b>\$500,000</b>	<b>2.95%</b>	--	--	<b>\$922,556</b>	<b>3.68%</b>	<b>\$6,190,000</b>

-- No Data Available.

Fig. 19



# ANNUAL FINANCIAL AUDIT

## OVERVIEW

### Annual Financial Audit: The Basics

The State School Aid Act requires the Academy to engage an independent certified public accountant to conduct an annual financial audit of the Academy. This process is initiated when the Board approves the auditor's engagement letter outlining the services that will be provided, which should include the cost of the audit.

The Center recommends that the Academy Board stipulate the date upon which they require the auditor to present the audited financial statements to the Academy Board. Failure to comply with the State's November 15th deadline will result in withholding of the Academy's monthly state aid payments until such time as the audited financial statements are on file with the Michigan Department of Education, Office of Audits.

In addition to the engagement letter and the audited financial statements, the Master Calendar of Reporting Requirements requires academies to submit all letters issued by the Academy's auditor, as well as all Board-approved responses to any findings and recommendations that were identified. These

findings and recommendations can be found in various places throughout the audited financial statements and related letters so it is imperative that the Academy Board responds to all items.

The Center's review of the findings and recommendations includes an analysis of whether it is a repeat item from the prior year and whether or not the previous Board-approved response indicated an expectation that the issue would be resolved in a timely manner. If a policy was developed or implemented and the Academy's administration did not adhere to the Board's directive, then the repeat finding may indicate to the Board that it has issues or concerns that extend beyond simply what was identified in the audit finding.

A list of all independent accounting firms that have experience auditing school districts, including charter public schools, can be found on the Michigan Department of Education's website:

[http://www.michigan.gov/documents/mde/AuditorList2012\\_419152\\_7.pdf](http://www.michigan.gov/documents/mde/AuditorList2012_419152_7.pdf)

### Findings/Recommendations and Board-approved Response

	Repeat Item
<p><b>Recommendation</b> Many key financial functions are performed solely by the Business Manager. This lack of segregation of duties subjects the Academy to an increased risk of asset misappropriation.</p> <p>Response The Academy Board has been aware of this issue for many years. Due to our size and lack of additional funding we have not been able to hire additional personnel to ensure proper segregation of duties.</p>	Y
<p><b>Significant Deficiency</b> We noted multiple occurrences in-which payroll information found in the employee files did not agree with the Academy's payroll records.</p> <p>Response The Academy's payroll provider will review the matter.</p>	N
<p><b>Significant Deficiency</b> The Academy's internal controls require purchase orders be written in advance of purchases being made. Our audit noted a significant number of purchase orders that were dated after the invoice to which they relate. The Academy is not following its established procedures and expenditures are being incurred prior to purchase orders actually being approved.</p> <p>Response Management has implemented changes to the purchase order procedure to ensure purchases are approved prior to the purchase actually taking place. The Board Treasurer will review the status of the revised procedures with the Business Manager on a quarterly basis.</p>	Y
<p><b>Significant deficiency and material noncompliance with laws and regulations</b> During our review of the Title I program, we noted multiple occurrences of noncompliance with federal grant requirements.</p> <p>Response The Academy Board recognizes this as a serious matter and will seek additional grant compliance training for our staff that are responsible for this program. A grant expert will also be hired to review the program on a periodic basis.</p>	N

NOTE: Any information presented in Fig. 20 is directly reported as received from, and approved by, the Academy Board.

Fig. 20

# FISCAL PERFORMANCE

## OVERVIEW

An essential function of the Academy Board is to use financial reporting as a tool to ensure that the approved budget remains on track throughout the course of the fiscal year. The Academy's administration presents interim financial statements to the Board monthly, while the Center receives them on a quarterly basis. Comparing the Academy's year ending June 30 interim financial statements to the audited financial statements provides an opportunity to measure the accuracy of the Academy's financial reporting. Additionally, when the year is over, it is equally important to review how well the Academy remained aligned with the final budget and ensure that variances are explained and understood since they can have a long-term impact on the Academy's fiscal sustainability.

### Final Budget vs. the Audited Financial Statements

The chart below compares the Academy's final approved budget and its audited financial statements for the year ending June 30, 2013. The Academy Board should inquire about large variances, both positive and negative, as they could have an impact on subsequent budgets.

	Final Budget	Audited Financial Statements <sup>1</sup>	Positive (Negative) Variance	Percent
<b>Total Revenues</b>	\$3,440,753	\$3,401,484	(\$39,269)	-1%
<b>Total Expenditures</b>	\$3,430,163	\$3,264,480	\$165,683	5%
Revenues over Expenditures	\$10,590	\$137,004	\$126,414	
Ending Fund Balance	\$441,000	\$567,414	\$126,414	

Fig. 21

### Interim Financial Statements vs. the Audited Financial Statements

The chart below compares the Academy's interim financial statements and its audited financial statements for the year ending June 30, 2013. Large variances could indicate that substantial audit adjustments were required. In this case, the Academy Board should inquire and review the information.

	Interim Financial Statements <sup>2</sup>	Audited Financial Statements <sup>1</sup>	Positive (Negative) Variance	Percent
<b>Total Revenues</b>	\$3,303,529	\$3,401,484	\$97,955	3%
<b>Total Expenditures</b>	\$3,256,659	\$3,264,480	(\$7,821)	0%
Revenues over Expenditures	\$46,870	\$137,004	\$90,134	
Ending Fund Balance	\$477,280	\$567,414	\$90,134	

Fig. 22

<sup>1</sup> For the purpose of the charts on this page, Audited Financial Statements data was sourced from the FID.

<sup>2</sup> For the purpose of the chart on this page, Interim Financial Statements data was sourced from the year ending 4th Quarter Financial Statements as submitted by the Academy to the Center.

# FISCAL PERFORMANCE

## FUND BALANCE & LIQUIDITY

### Fund Balance

Fund balance, which does not necessarily represent cash-on-hand, is created or increased when revenues exceed expenditures in a fiscal year. The difference between the Academy's assets (what it owns) and liabilities (what it owes) equals its fund balance. A positive fund balance represents the financial resources available to finance future expenditures. Traditional industry standards suggest that schools maintain a fund balance between 5-15% of general operating expenditures. The Academy Board should determine what fund balance amount is appropriate based on the needs and long-term vision of the Academy.

*NOTE: The industry standard is the range used by schools as a benchmark, and should be taken into consideration with other factors at the Academy as they may not accurately reflect long-term planning, such as property acquisitions, and other unknown influences at the time this report was generated.*

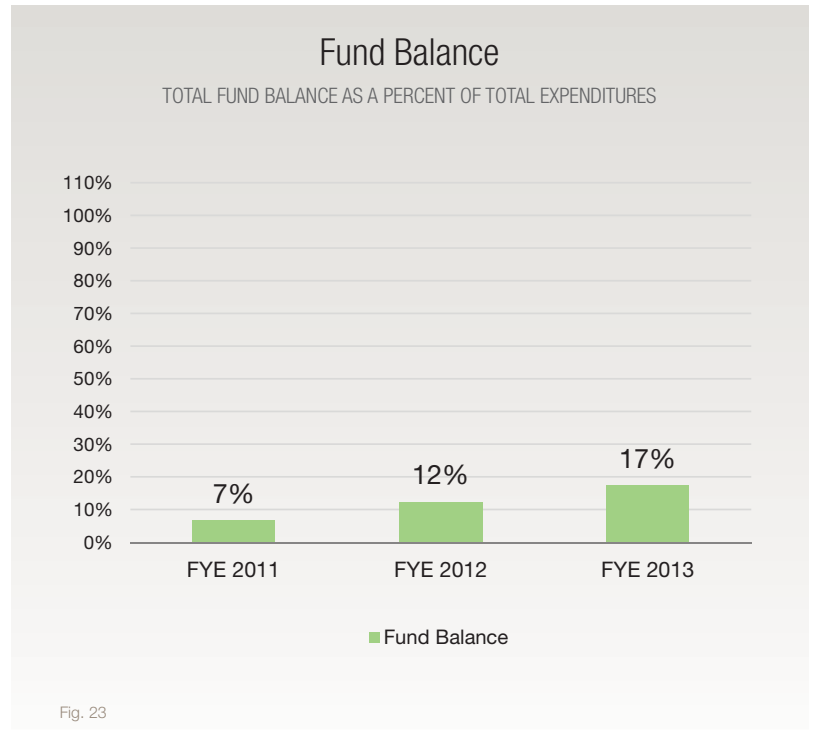


Fig. 23

### Liquidity

Liquidity measures the Academy's ability to use cash, and convert other short-term assets into cash, in order to meet immediate and short-term obligations (known as current liabilities). Typical current assets include: cash, cash equivalents, accounts receivable and short-term investments. The current ratio is commonly used to measure liquidity, which is a good indicator of the Academy's ability to pay its short-term liabilities with its short-term assets. The higher the current ratio, the more capable the Academy is of paying its obligations. A ratio under 1.0 suggests that the Academy would be unable to pay off all of its current obligations if they came due at that point. Another statement used by boards to monitor its liquidity is a cash flow statement. Boards should receive and review this information on a monthly basis along with its other standard financial reports.



Fig. 24



# END NOTES

## RESOURCES, ACRONYMS & GLOSSARY

### RESOURCES

**Budget and Salary/Compensation Transparency Reporting:** [http://www.michigan.gov/mde/0,1607,7-140-6530\\_6605-159882--,00.html](http://www.michigan.gov/mde/0,1607,7-140-6530_6605-159882--,00.html)

**Center for Educational Performance and Information (CEPI):** [www.michigan.gov/cepi](http://www.michigan.gov/cepi)

**CEPI FID information:** [www.michigan.gov/cepi/0,1607,7-113-986\\_10484---,00.html](http://www.michigan.gov/cepi/0,1607,7-113-986_10484---,00.html)

**Financial Status Reports:** <http://mdoe.state.mi.us/SAMSStatusReports/StatusReport.aspx>

**Michigan Department of Treasury:** [www.michigan.gov/treasury](http://www.michigan.gov/treasury)

**Michigan Public School Accounting Manual:** [http://michigan.gov/mde/0,4615,7-140-6530\\_6605-21321--,00.html](http://michigan.gov/mde/0,4615,7-140-6530_6605-21321--,00.html)

**Michigan Pupil Accounting and Attendance Association:** [www.mpaaa.org](http://www.mpaaa.org)

**Michigan School Business Officials:** [www.msbo.org/](http://www.msbo.org/)

**Michigan State School Aid Act:** [www.legislature.mi.gov/documents/mcl/pdf/mcl-act-94-of-1979.pdf](http://www.legislature.mi.gov/documents/mcl/pdf/mcl-act-94-of-1979.pdf)

**Monthly State School Aid Update:** [www.michigan.gov/mde/0,4615,7-140-6530\\_6605-21108--,00.html](http://www.michigan.gov/mde/0,4615,7-140-6530_6605-21108--,00.html)

**Revised School Code:** [www.legislature.mi.gov/\(S\(31qrkl55wovjbx45110rl45\)\)/documents/mcl/pdf/mcl-chap380.pdf](http://www.legislature.mi.gov/(S(31qrkl55wovjbx45110rl45))/documents/mcl/pdf/mcl-chap380.pdf)

**The Governor John Engler Center for Charter Schools:** [www.TheCenterForCharters.org](http://www.TheCenterForCharters.org)

**Uniform Budgeting and Accounting Act:** [www.legislature.mi.gov/documents/mcl/pdf/mcl-act-2-of-1968.pdf](http://www.legislature.mi.gov/documents/mcl/pdf/mcl-act-2-of-1968.pdf)

### ACRONYMS & GLOSSARY

**Bank Loan** – A loan made by a bank that is secured by real property.

**Blended Student Count** – Public schools receive funding based upon a “blended student count.” The 2012-2013 foundation allowance was calculated based upon a blended student count consisting of 90% of the Academy’s current year fall headcount (October 2012) and 10% of the Academy’s prior year’s spring headcount (February 2012).

**Bond Issuance** – A debt security under which the issuer owes the bond holders principal and interest payments at fixed intervals of time.

**Community Services Expenditures** – Community activities that are not directly related to providing education for pupils in a school system.

**Current Ratio** – This is a liquidity ratio that measures the Academy’s ability to pay short-term debt obligations.  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$ .

**Federal Sources Revenues** – Funding from the federal government, generally in the form of restricted grants including Title I, Part A.

**Financial Information Database (FID)** – For purposes of this report, all source references to the Academy’s FID are related to the FID data files for the General Fund only.

**Function** – The broadest way to categorize the Academy’s expenditures is at the functional level, and is the basic account identifier for expenditures outlined in the Michigan Public School Accounting Manual. The basic functional categories operated by most districts are basic instruction, added needs instruction, pupil support, instructional staff support, general administration support, school administration support, business support, operations and maintenance, transportation, central support, other support, community services and outgoing transfers and other transactions. The Academy’s budget is adopted at the functional level.

# END NOTES

## ACRONYMS & GLOSSARY CONTINUED

**Fund Balance** – Term used for governmental funds representing the difference between assets and liabilities. Fund balance must be classified as non-spendable, restricted, committed, assigned or unassigned.

**FYE** – Fiscal Year Ending (as of June 30, 2013).

**Instructional Expenditures** – Include teachers, teacher assistants, textbooks, classroom supplies and resources directly dealing with the instructional program. These are direct classroom expenditures.

**Land Contract** – A contract between a seller and a buyer for the purchase of real property.

**Liquidity** – The ability to convert short-term assets into cash.

**Local Sources Revenues** – Funding from local contributions or local foundations, fee based school programs or student activities.

**Object Code** – The coding level which further defines/distinguishes between expenditures, and is the detailed coding for expenditures outlined in the Michigan Public School Accounting Manual. The broad object code categories include salaries, benefits, purchased services, supplies/materials and capital outlay. It is not a requirement of The Uniform Budgeting and Accounting Act to adopt the budget at this level of detail.

**Other Revenues** – Transfers from another school district or another fund and proceeds from issuance of long-term debt.

**Outgoing Transfers and Other Transaction Expenditures** – Payments to other school districts, debt service and fund modifications.

**Per-pupil Foundation Allowance** – This amount is established by the legislature each year and accounts for the majority of the Academy's state revenue.

**Section 31a At-Risk** – Section 31a of the State School Aid Act provides funding to eligible districts. This funding is restricted for use in increasing the academic achievement of at-risk students and cannot be used to cover any administrative or other related costs. This is the state funding that is similar to Title I, Part A federal dollars.

**Short-term Cash Flow Borrowings** – Debt obligations that are incurred for cash flow purposes that must be repaid by the borrower in less than 372 days.

**State Sources Revenues** – Funding from the state in the form of the foundation allowance and additional unrestricted and restricted funds.

**Supporting Services Expenditures** – Services that provide administrative, technical and logistical support to facilitate and enhance instruction. This classification of expenditures includes non-classroom expenditures.

**Title I, Part A - Improving Basic Programs** – Federal Title I, Part A funds are restricted and are intended to help students that are not meeting or most at risk of not meeting the achievement standards in four 'Core Academic Areas': English/Language Arts, mathematics, science, and social studies. This funding supplements state aid and is used to provide a direct service to raise student achievement and parent involvement. This funding is based upon student eligibility, thus follows the student.

# END NOTES

## SOURCES & CITATIONS

- Fig. 1 Source: The Charter Contract and Educational Service Provider Agreement
- Fig. 2 Source: Michigan Department of Education, CEPI Public Data
- Fig. 3 Source: Michigan Department of Education, CEPI Public Data
- Fig. 4 Source: Michigan Department of Education, Michigan Student Data System fall - Unaudited
- Fig. 5 Source: Michigan Department of Education, CEPI Public Data
- Fig. 6 Source: Michigan Department of Education, MEAP and MME
- Fig. 7 Source: Michigan Department of Education, CEPI Public Data
- NOTE: National School Lunch Program – Free and Reduced Lunch Eligibility is a proxy for determining the socioeconomic make-up of a school.
- Fig. 8 Source: Michigan Department of Education, Michigan Student Data System fall - Unaudited
- Fig. 9 Source: Michigan Department of Education, Michigan Student Data System fall - Unaudited
- Fig. 10 Source: Michigan Department of Education, Michigan Student Data System fall - Unaudited
- Fig. 11 Source: Audited Financial Statements and FID
- Fig. 12 Source: Michigan Department of Education, CEPI Public Data
- Fig. 13 Source: Michigan Department of Education, August Financial Status Report
- Fig. 14 Source: Audited Financial Statements and FID
- Fig. 15 Source: Audited Financial Statements and FID
- Fig. 16 Source: FID
- Fig. 17 Source: FID
- Fig. 18 Source: FID
- Fig. 19 Source: Short-term borrowing documents as received by the Center; Audited Financial Statements. One basis point equals one hundredth of one percent. Variable rates have been excluded from the CMU average.
- Fig. 20 Source: Audited Financial Statements and letters issued by the auditor.
- Fig. 21 Source: Audited Financial Statements and FID
- Fig. 22 Source: 4th Quarter Financial Statements and FID
- Fig. 23 Source: FID
- Fig. 24 Source: FID

### SPECIAL NOTE:

Several of the charts and graphs presented in this Fiscal Performance Report were generated using the Academy's 2012-2013 Financial Information Database (FID) data files; a state-mandated submission through the Center for Educational Performance and Information (CEPI) as well as a required submission to the Center per the Master Calendar of Reporting Requirements. A component of this submission includes a verification statement indicating that the FID data files uploaded to CEPI align with the Academy's audited financial statements. Questions surrounding discrepancies between the amounts presented in the charts and graphs in this FPR and the amounts reported in the Academy's audited financial statements for the year ending June 30, 2013 should be addressed with the individual(s) responsible for the preparation and submission of the Academy's FID data files.

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———— CENTRAL MICHIGAN UNIVERSITY ————

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