

MEMORANDUM

TO: Charter School Directors, Charter School Board Chair, Charter School Sponsors, Local Education Agency (LEA) Audit Firms

FROM : David Day, Education Finance Specialist
Division of School Finance

DATE: September 30, 2014

SUBJECT: Summary of Audit Requirements FY 2014 Audits

FY 2014 – Changes to Charter School Reporting Requirements

Laws 2014, Chapter 272, Article 3, Section 36, Subd. 6a requires charter schools to submit to the Minnesota Department of Education (MDE) additional information with the fiscal year end audit report. The requirements begin with FY 2014 reporting period.

The law is as follows:

Subd. 6a. Audit report. (a) The charter school must submit an audit report to the commissioner and its authorizer by December 31 each year.

(b) The charter school, with the assistance of the auditor conducting the audit, must include with the report, as supplemental information, a copy of management agreements with a charter management organization or an educational management organization and service agreements or contracts over the lesser of \$100,000 or 10 percent of the school's most recent annual audited expenditures. The agreements must detail the terms of the agreement, including the services provided and the annual costs for those services. If the entity that provides the professional services to the charter school is exempt from taxation under section 501 of the Internal Revenue Code of 1986, that entity must file with the commissioner by February 15 a copy of the annual return required under section 6033 of the Internal Revenue Code of 1986.

(c) A charter school independent audit report shall include audited financial data of an affiliated building corporation or other component unit.

(d) If the audit report finds that a material weakness exists in the financial reporting systems of a charter school, the charter school must submit a written report to the commissioner explaining how the material weakness will be resolved. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school's financial audit to the commissioner and authorizer upon request.

Charter Schools

This section is a clarification of the charter schools reporting requirement to provide copies of agreements with service providers.

The term agreement is defined as, but not limited to, contracts, letters of intent, memos of understanding, etc.

The following supplemental information requirements are in addition to the required annual audit report and must be submitted to the Department of Education and the school's authorizer by December 31 of each year. Required charter school supplemental information is NOT a requirement of the Office of State Auditor and is not to be submitted to the Office of State Auditor.

Required documents regardless of contract amount:

Charter schools having a contract with a Charter Management Organization (CMO) or Education Management Organization (EMO) are required to submit a copy of the contract for the period of the fiscal year being reported. This year the period for fiscal reporting is 7/1/2013- 6/30/2014. An agreement overlapping the fiscal year will require both agreements to be submitted.

Example:

1. A Management contract with effective dates of 1/1/2013 – 12/31/2013 and 1/1/2014 – 12/31/2014, requires both contracts to be submitted.
2. Management contract which cover multiple years would submit the contract for the fiscal reporting period. (Contract 7/1/2013 -6/30/2016 would submit the same contract in the years of 2014, 2015, and 2016.)

General definitions:

An education management organization, or EMO, is usually defined as a private organization or firm (for profit) that manages public schools, including district and charter public schools. A charter management organization, or CMO, is a non-profit equivalent of an EMO.

A contract details the terms under which administrative authority to operate one or more schools is given to an EMO/CMO in return for a commitment to produce measurable outcomes within a given time frame. The term "education/charter management organization" and the acronyms "EMO/CMO" are most commonly used to describe these private/non-profit organizations that manage public schools under contract. However, other names or labels, such as "education service providers," are sometimes used to describe these companies.

An important distinction should be made between EMOs/CMOs, which have administrative authority to operate a school, and service contractors, often referred to as "vendors." Vendors provide, for a fee, specific services such as accounting, payroll and benefits administration, transportation, financial and legal advice, personnel recruitment, professional development, and special education.

Other Required Documents:

Charter School must submit a copy of any contract which meets the following criteria:

Where the total annual amount paid to any contractor is over the lesser of \$100,000 OR 10% of the year end audited expenditures.

The agreements must detail the terms of the agreement and must identify the services provided along with annual cost for the services identified in the agreement.

NOTE:

Charter schools without management services contracts or agreements meeting the criteria of "total annual amount paid to any contractor is over the lesser of \$100,000 or 10% of the year end audited expenditures" should include with their submission, a letter to the Minnesota Department of Education, signed by the School's Director, stating: "The XYZ Charter school does not have a contract with a management company or contracts which meet the contract criteria identified above."

Charter School Auditor Requirements – Submissions and Submission Options

- A. Independent audit reports for charter schools must include the audited data from the affiliated building corporation or other component units, per Subdivision 6a (c),
- B. Submission of Supplemental Information – Assist school with submitting agreement information.
- C. An auditor, as a condition of providing financial services to a charter school, must agree to make available information about a charter school's financial audit to the commissioner and authorizer upon request, per Subdivision 6a (d).

Supplemental information is recommended to be submitted to MDE via e-mail using the file naming convention and submitted to the e-mail address below:

Fiscal Year	District ID	District Type	District Name	Report Name
4 characters	4 characters	2 characters	Up to 12 characters	<ul style="list-style-type: none"> • Management • Service

Each element must be separated by a “.” (Period)

Note: Submit a separate file for each of these reports (see examples below):

1. Management Agreements suffix convention: Mgmt.Agree
2. Service Agreements suffix convention: Service.Agree

Examples: 2014.4113.07.FraserAcad.mgmt.agree
2014.4113.07.FraserAcad.service.agree

If multiple files will be submitted in each category, number the files beginning with 1.

Examples: 2014.4113.07.FraserAcad.mgmt.agree1
2014.4113.07.FraserAcad.mgmt.agree2

2014.4113.07.FraserAcad.service.agree1
2014.4113.07.FraserAcad.service.agree2

The e-mail address for electronic submission is mde.finmgt@state.mn.us.

If electronic format is unavailable, required information may be submitted via U.S. Mail or by other courier; please submit printed (hard) copy of the required documents to:

Minnesota Department of Education
Division of School Finance
Attn: David Day (I-12)
1500 Highway 36 W
Roseville, MN 55113

If you have questions about the “FY 2014 Changes to Charter School Reporting Requirements”, please contact the UFARS Accounting Helpdesk at: MDE.UFARS-Accounting@state.mn.us.