

**SUBSTITUTE FOR  
HOUSE BILL NO. 5627**

A bill to amend 1979 PA 94, entitled  
"The state school aid act of 1979,"  
by amending section 18 (MCL 388.1618), as amended by 2003 PA  
158.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1       Sec. 18. (1) Except as provided in another section of this  
2 act, each district or other entity shall apply the money received  
3 by the district or entity under this act to salaries and other  
4 compensation of teachers and other employees, tuition,  
5 transportation, lighting, heating, ventilation, water service,  
6 the purchase of textbooks which are designated by the board to be  
7 used in the schools under the board's charge, other supplies, and  
8 any other school operating expenditures defined in section 7.  
9 However, not more than 20% of the total amount received by a  
10 district under article 2 or intermediate district under article 8

1 may be transferred by the board to either the capital projects  
2 fund or to the debt retirement fund for debt service. The money  
3 shall not be applied or taken for a purpose other than as  
4 provided in this section. The department shall determine the  
5 reasonableness of expenditures and may withhold from a recipient  
6 of funds under this act the apportionment otherwise due for the  
7 fiscal year following the discovery by the department of a  
8 violation by the recipient.

9 (2) For the purpose of determining the reasonableness of  
10 expenditures and whether a violation of this act has occurred,  
11 the department shall require that each district and intermediate  
12 district have an audit of the district's or intermediate  
13 district's financial and pupil accounting records conducted at  
14 least annually at the expense of the district or intermediate  
15 district, as applicable, by a certified public accountant or by  
16 the intermediate district superintendent, as may be required by  
17 the department, or in the case of a district of the first class  
18 by a certified public accountant, the intermediate  
19 superintendent, or the auditor general of the city. An  
20 intermediate district's annual financial audit shall be  
21 accompanied by the intermediate district's pupil accounting  
22 procedures report. A district's or intermediate district's  
23 annual financial audit shall include an analysis of the financial  
24 and pupil accounting data used as the basis for distribution of  
25 state school aid. The pupil accounting records and reports,  
26 audits, and management letters are subject to requirements  
27 established in the auditing and accounting manuals approved and

1 published by the department. Except as otherwise provided in  
2 this subsection, a district shall file the annual financial audit  
3 reports with the intermediate district not later than 120 days  
4 after the end of each school fiscal year and the intermediate  
5 district shall forward the annual financial audit reports for its  
6 constituent districts and for the intermediate district, and the  
7 pupil accounting procedures report for the pupil membership count  
8 day and supplemental count day, to the department not later than  
9 November 15 of each year. The annual financial audit reports and  
10 pupil accounting procedures reports shall be available to the  
11 public in compliance with the freedom of information act, 1976 PA  
12 442, MCL 15.231 to 15.246. Not later than December 1 of each  
13 year, the department shall notify the state budget director and  
14 the legislative appropriations subcommittees responsible for  
15 review of the school aid budget of districts and intermediate  
16 districts that have not filed an annual financial audit and pupil  
17 accounting procedures report required under this section for the  
18 school year ending in the immediately preceding fiscal year.

19 (3) By November 15 of each year, each district and  
20 intermediate district shall submit to the center, in a manner  
21 prescribed by the center, annual comprehensive financial data  
22 consistent with accounting manuals and charts of accounts  
23 approved and published by the department. **For an intermediate**  
24 **district, the report shall also contain all of the information**  
25 **required under section 620 of the revised school code, MCL**  
26 **380.620.**

27 (4) By September 30 of each year, each district and

1 intermediate district shall file with the department the special  
2 education actual cost report, known as "SE-4096", on a form and  
3 in the manner prescribed by the department.

4 (5) By October 7 of each year, each district and intermediate  
5 district shall file with the department the transportation  
6 expenditure report, known as "SE-4094", on a form and in the  
7 manner prescribed by the department.

8 (6) Not later than July 1, 1999, the department shall approve  
9 and publish pupil accounting and pupil auditing manuals. The  
10 department shall review those manuals at least annually and shall  
11 periodically update those manuals to reflect changes in this  
12 act. The pupil accounting manuals in effect for the 1996-97  
13 school year, including subsequent revisions issued by the  
14 superintendent, shall be the interim manuals in effect until new  
15 manuals are approved and published. However, the clarification  
16 of class-by-class accounting provided in the department's  
17 April 15, 1998 memorandum on pupil accounting procedures shall be  
18 excluded from the interim manuals.

19 (7) If a district that is a public school academy purchases  
20 property using money received under this act, the public school  
21 academy shall retain ownership of the property unless the public  
22 school academy sells the property at fair market value.

23 (8) If a district or intermediate district does not comply  
24 with subsection (2), (3), (4), or (5), the department shall  
25 withhold all state school aid due to the district or intermediate  
26 district under this act, beginning with the next payment due to  
27 the district or intermediate district, until the district or

1 intermediate district complies with subsections (2), (3), (4),  
2 and (5). If the district or intermediate district does not  
3 comply with subsections (2), (3), (4), and (5) by the end of the  
4 fiscal year, the district or intermediate district forfeits the  
5 amount withheld.

6 Enacting section 1. This amendatory act takes effect  
7 January 1, 2005.

8 Enacting section 2. This amendatory act does not take  
9 effect unless House Bill No. 5475 of the 92nd Legislature is  
10 enacted into law.