Sounding Board

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Financial Oversight: Five Key Questions for Minnesota Charter School Boards to Answer at Every Meeting

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A charter school's board of directors is critical to the success of the school. According to statute, this group of volunteer public servants—which includes parents, teachers, and community members—are charged with the primary purpose of charter schools, which is "to improve all pupil learning and all student achievement." (MN Stat. 124E.01) Put another way, the board of directors must ensure "that all students learn and that nothing illegal, unethical, or imprudent is allowed to exist in the school." (*Charter School Board University*, Brian Carpenter)

That is no small task.

Central to that charge is the oversight of the charter school's finances. And because making money is never a core aspect of a charter school's mission, as it is for many businesses, the purpose of that financial oversight is—you guessed it—to ensure that all students learn and that nothing bad is happening at the school.

The focus of a board's financial oversight is three-fold:

- To ensure great outcomes for students.
- To ensure *sustainable* great outcomes for students.
- To meet ethical, moral, and legal obligations.

So, what does that look like? First, it means developing and approving a budget or financial plan that allocates resources to achieve great outcomes for students today and tomorrow, while using public resources responsibly. Then, it involves monitoring the school's financial activities against that budget or plan and making changes as necessary.

To do so, boards must review quality financial statements alongside student performance data and ask these five questions:

5 Key Questions to Guide Your Budget Monitoring

1. **How does our actual enrollment compare to our budgeted enrollment? Are we being paid by the Minnesota Department of Education (MDE) based on the right enrollment level?**

Student enrollment is the key driver of revenues for charter schools. This is why the board must monitor enrollment closely and consider what adjustments may be needed if actual enrollment differs meaningfully from budgeted enrollment. Enrollment below projections will no doubt mean less revenue for the school, and the board will have to determine if expenditure reductions are necessary. If enrollment is above projections, the school will likely have more revenue than anticipated and will also need to spend more on things like books, computers, and perhaps staff. Also, because the school is paid based on enrollment levels reported by the school to MDE, it is critical that those reported numbers reflect actual enrollment. Otherwise, the school may be overpaid (which will lead to problems down the road), or underpaid (leading to cash flow challenges). Financial statements must include a clear enrollment report that outlines budgeted enrollment, actual enrollment, and enrollment reported to MDE (in both ADM and PU*).

2. Are our actual revenues and expenditures consistent with our budgeted amounts?

The board and school leadership develop an annual budget; the board reviews and approves it with the belief that this financial plan will effectively serve students and meet desired student outcomes. Therefore, the board and leadership must monitor whether what is actually happening is consistent with that plan. For example, if the plan is to spend $50,000 on computers and textbooks, then, barring some intervening situation, the school should spend approximately $50,000 on computers and textbooks during the school year. If the school is overspending in this area, that may lead to financial challenges; if the school is underspending, then students and teachers may not have the resources they need to achieve great student outcomes. To answer this question, the board must review a clear report that compares the budget to actual income/expenses, outlining the school's projected revenues and expenditures for the fiscal year as well as the actual year-to-date revenues and expenditures. If actual revenues or expenditures differ greatly from budgeted amounts, the board must seek to understand why and make adjustments as needed.

3. Do we have enough cash to cover expenses for the coming months?

As the saying goes, "cash is king." Charter schools cannot pay staff, buy materials, transport students, and pay rent and utilities—let alone make photocopies or feed students lunch—without cash. Cash is critical to the smooth operation of the school. As such, a charter school board must monitor how much cash the school has, to be sure the school can pay all the bills, not only this month and next month, but every month. Since Minnesota's approach to funding schools includes a 10% holdback, it is even more critical to understand the school's cash position. To answer this question, the board must review a 12-month cash flow projection. The board should seek to have at least 30 days cash at all times (if not 60 days); if projections indicate an amount below this, the board must consider whether a line of credit may be needed.

*Minnesota uses two ways to talk about enrollment, Average Daily Membership (ADM), which refers to the actual number of students enrolled at the school on average during, or Pupil Units (PUs), which refers to the *weighted* average enrollment of the school. ADM is important to know because it drives how many desks or books or computers are needed for students. PUs drive funding. Students are weighted as follows:
K-6: 1.0
7-12: 1.2

4. Are we achieving our desired student outcomes?

Charter schools, through a contract with their authorizer and their promise to students and families, have goals and outcomes they are working to achieve for all students. Since the core purpose of the charter school board is to ensure all students learn, the board must look at data and discuss the extent to which that is happening. Boards must first define student goals and outcomes (which must include performance expectations outlined in the charter contract) and work with school leadership to identify the data points they will review to gauge progress on those goals and outcomes. School leadership gathers and presents that data during board meetings and discusses with the board the school's progress in meeting these desired outcomes. Depending on the goals and progress, the board and school leadership determine how to best use financial resources, creating and updating budgets, or making other adjustments, as needed.

5. Is our school spending public funds appropriately and in compliance with relevant laws and regulations?

Public entities, such as charter schools, must spend public funds for a public purpose. Minnesota law defines public funds as "all funds, regardless of source or purpose, held or administered by a government entity, unless otherwise restricted." Any funds in the school's bank accounts or processed by the school are public funds. This includes state and federal dollars as well as grant funds or individual donations. An expenditure serves the public purpose if it benefits the community as a whole, is directly related to the functions of the school, and does not have as its primary objective the benefit of private interest. By reviewing monthly expenditure statements, boards (or finance committees) can answer this question and take appropriate action as needed.

For more on the "public purpose doctrine," see this link.

It is the full board's responsibility to be able to answer these questions directly. The board cannot just pass off that responsibility to the school leader, business manager, financial service provider, or finance committee. Answering these questions at each board meeting need not be time consuming, particularly as the board becomes more comfortable doing so. Depending on the circumstances, discussion may be robust, particularly if a school's financial health is fragile. Arguably the most time should be spent answering the question related to student outcomes, and periodically, particularly as meaningful data related to student outcomes is available, the board can and should dedicate more time on the agenda to this question.

Conclusion

By explicitly including these questions on the agenda, ensuring data is available to the board in a timely manner to help answer these questions, and engaging in meaningful discussion as a board about appropriate courses of action based on the answers, the charter school board can make great strides towards achieving its primary purpose, to improve all pupil learning and all student achievement, while ensuring that nothing illegal, unethical, or imprudent is allowed to exist in the school.

Below the State of Minnesota discusses how public funds must be made for a public purpose and gives a definition of that.

I. MINNESOTA PUBLIC PURPOSE DOCTRINE

The public purpose doctrine is based on the Minnesota State Constitution, Art. X § 1. Pursuant to the doctrine, public entities may only spend public funds "[i]f the purpose is a public one for which tax money may be used, and there is authority to make the expenditure, and the use is genuine . . . "[8] Thus, for an expenditure of a public entity to be proper, the public entity must first have the authority to make the expenditure.[9] As explained in a Minnesota Attorney General Opinion, public funds cannot be expended, regardless of how desirable or commendable the purpose may be, unless there is statutory or charter authority to do so.[10]

Second, the expenditure must be made for a public purpose.[11] The courts have generally construed "public purpose" to mean "such an activity as will serve as a benefit to the community as a body and which, at the same time, is directly related to the functions of government."[12] The benefit that the public receives from the expenditure of public funds cannot be merely incidental.[13] According to the Minnesota Attorney General, any benefit which results from an employee social function is too remote and speculative in nature to justify the expenditure as being for a public purpose.[14]

Furthermore, the public purpose requirement applies to funds of governmental entities derived not only from taxation, but from other sources as well.[15]

Minnesota law also states that "[a]ll officers and agencies of . . . cities . . . shall make and preserve all records necessary to a full and accurate knowledge of their official activities."[16] The chief administrative officer is responsible for the preservation of the records, which include written or printed books, papers, letters, contracts, documents, computer-based data, and other records made or received pursuant to law or in connection with the transaction of public business.[17] Therefore, a city must maintain documentation to establish that all city expenditures served a public purpose.

8 *Tousley v. Leach*, 180 Minn. 293, 296, 230 N.W. 788, 789 (1930).
9 *Id.*
10 Op. Att'y Gen. 59a-22 (December 4, 1934).
11 *Visina v. Freeman*, 252 Minn. 177, 184, 89 N.W.2d 635, 643 (1958).
12 *Id.*
13 *See Burns v. Essling*, 156 Minn. 171, 174, 194 N.W. 404 (1923).
14 Op. Att'y Gen. 59a-22 (November 23, 1966).
15 Op. Att'y Gen. 107-a-3 (January 22, 1980) (expenditures from a hospital which had been self-sufficient for several years were still required to satisfy a public purpose because the hospital had been established with public funds).
16 Minn. Stat. § 15.17, subd. 1 (2000).