

Cornerstone Montessori Elementary School

Fund Balance Policy**I. Introduction and Responsibilities**

The Board of Directors recognizes the challenges in achieving a healthy, viable, fiscal future amidst the fluctuations that occur from population shifts, program and client demands, and state finance formulas. The Board further understands the need to be ever mindful of its obligation to the public trust and the rightful demand for accountability from the Board. Therefore, the Board of Directors establishes a policy on fund balance reserves and fiscal management principles.

The purpose of this policy is to ensure that the fiscal integrity of Cornerstone Montessori Elementary School is maintained, the cash position is always adequate to meet critical financial obligations, and to comply with the reporting guidelines specified in Statement No.54 of the Governmental Accounting Standards Board (GASB).

II. Definitions and Adaptations

Fund Equity - A fund's equity is generally the difference between its assets and its liabilities.

Fund Balance - An accounting distinction is made between the portions of fund equity that are spendable and non-spendable. These are broken up into five categories:

- 1) **Non-spendable fund balance** - Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, pre-paid items, and non-current receivables such as long-term loan and notes receivable and property held for resale (unless the proceeds are restricted, committed or assigned). This also includes amounts that are legally or contractually required to be maintained intact (principal balance of endowments and permanent funds).
- 2) **Restricted fund balance** - Reflects constraints placed on the use of amounts that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The Minnesota Department of Education (MDE) has retained balance sheet codes for statutorily required reserves which will be titled Restricted/Reserved. This category of fund balance represents funds statutorily restricted for a particular use that were traditionally classified as "reserved".
- 3) **Committed fund balance** - Includes amounts that are committed for specific purposes by formal action of the school board. Amounts classified as "committed" are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the school board removes or changes the limitation by taking the same form of action it employed to previously impose the limitation. The action to commit fund balances must occur prior to year end; however, actual amounts can be determined in the subsequent period.

- 4) **Assigned fund balance** - Amounts that are intended by the school district to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the school board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policy established by the school board. This would include ANY activity reported in a fund other than the General Fund that is not otherwise restricted more narrowly by the above definitions. The school district is not allowed to assign balances that result in a residual deficit.
- 5) **Unassigned fund balance** - includes any remaining amounts after applying the above definitions (amounts not classified as non-spendable, restricted, committed or assigned). Special rules exist for using this classification in funds other than the General Fund where unassigned can only be used if the balance is negative, therefore, the General Fund is the only fund that will report a positive unassigned balance.

Order of Expenditure of Funds – When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded by a grant, funds set aside by the school, and unassigned fund balance), Cornerstone Montessori Elementary School will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

III. General Operations Reserve Fund

Cornerstone Montessori Elementary School will strive to attain a minimum general operations fund balance of 20-30% of annual budgeted expenditures. This fund balance is needed to guard against unanticipated emergencies, unforeseen events, new program initiatives, capital improvements not covered by the landlord and future Statutory Operating Debt (SOD) circumstances.

The minimum unassigned fund balance target will be reviewed annually. Once attained, if the unassigned fund balance falls below 20%, Cornerstone Montessori Elementary School will specifically note in the Board minutes that the Board is aware of the situation, cite the circumstances for falling below the goal, and discuss plans for meeting the goal in the future.

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Statutory References: Minn. Statute 123A. 73-Reorganization; Minn. Statute 123B.10-Publication of financial information; 123B.79-Permanent fund transfers; Minn. Statute 123B.80-Exceptions for permanent fund transfers. Minn. Statute 123B.81-Statutory Operating Debt; Minn. Statute 123B.82-Reorganization operating debt; Minn. Statute 123B.83-Expenditure limitations; Minn. Statute 126C.01-Definitions (funding); Minn. Statute 126C.43 Levies; Statutory obligations

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