

## MODERN MONTESSORI CHARTER SCHOOL

Board Adopted: October 21, 2020

### 701 FUND BALANCE POLICY

*[Note: The provisions of this policy substantially reflect the requirements of Minnesota Statutes.]*

#### I. PURPOSE

The purpose of this policy is to ensure that the fiscal integrity of Modern Montessori Charter 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. GENERAL STATEMENT OF POLICY

The Modern Montessori Charter School 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.

#### III. DEFINITIONS

“Fund Equity” is generally the difference between its assets and its liabilities.

“Fund Balance” is an accounting distinction made between the portions of fund equity that are spendable and non-spendable.

##### **These are broken up into five categories:**

- A. *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 loans 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).
- B. *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”.

- C. *Committed (Designated) Fund Balance*: Includes amounts that are committed for specific purposes by formal action of the Board of Directors. Amounts classified as “committed” are not subject to legal enforceability like a restricted fund balance; however, those amounts cannot be used for any other purpose unless the 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.
- D. *Assigned Fund Balance*: Amounts that are intended by Modern Montessori Charter School 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 Board of Directors 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 Board of Directors. 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.
- E. *Unassigned Fund Balance*: Includes any remaining amounts after applying the above definitions (amounts not classified as non-spendable, restricted, committed/designated 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), Modern Montessori Charter School will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

#### IV. GENERAL OPERATIONS RESERVE FUND

Modern Montessori Charter School will strive to attain a minimum unassigned general operations fund balance of 15-30% of budgeted expenditures as we grow to full capacity, recognizing that attaining 15% could be difficult in early years until we’ve reached our maximum enrollment targets. This fund balance is needed to guard against unanticipated emergencies, unforeseen events, new program initiatives, capital improvements not covered by the affiliated building company, and future Statutory Operating Debt (SOD) circumstances. The minimum unassigned general operations fund balance target will be reviewed at least bi-annually. Once attained, if the unassigned fund balance falls below 15%, Modern Montessori Charter 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.