

Fund Balance Policy

Adopted: June 11, 2009

Revised for GASB 54: November 10, 2011

Purpose

The purpose of this policy is to establish a key element of the financial stability of Cannon River STEM School by setting guidelines for fund balance. Unassigned fund balance is an important measure of economic stability. It is essential that the school maintain adequate levels of unassigned fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the school's general operations.

Definitions

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 spendable and nonspendable. These are broken up into five categories:

Nonspendable fund balance. Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, 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).

Restricted fund balance. Reflects the same definition as restricted net assets on the government wide Statement of Net Assets: constraints placed on the use of amounts 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 balances represent fund balances statutorily restricted for a particular use that were traditionally classified as "reserved."

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. Balance sheet code 418 is not allowed to go into deficit and continues to represent resources segregated from the Unassigned Fund Balance for retirement benefits, including compensated absences, other post-employment benefits and termination benefits (as defined by GASB Statement Nos. 16, 27, 45, 47 and 50).

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.

Unassigned fund balance. Includes any remaining amounts after applying the above definitions (amounts not classified as nonspendable, restricted, committed or assigned). Planned spending in the subsequent year's budget would be included here and can no longer be described as "designated" unless formally committed or assigned. Special rules exist for using this classification in funds other than the General Fund. In funds other than the General Fund unassigned only used if the balance is negative, therefore, the General Fund is the only fund that will report a positive unassigned balance.

Statement of Policy

1. **Committed Fund Balance.** The school board is the highest level of decision-making authority for Cannon River STEM School. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the school board at a school board meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
2. **Assigned Fund Balance.** The school board of Cannon River STEM School has authorized the Executive Director as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.
3. **Minimum Unassigned Fund Balance.** It is the goal of Cannon River STEM School to achieve and maintain an unassigned fund balance in the General Fund equal to a minimum of 20% of expenditures. Cannon River STEM School considers a balance of less than 20% to be cause for concern, barring unusual or deliberate circumstances. If unassigned fund balance falls below the goal or has a deficiency, Cannon River STEM School will takes measures to address this deficiency.
4. **Order of Expenditure of Funds.** When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the school district, and unassigned fund balance), Cannon River STEM School will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Reference

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (2009).