



Procedure 5.10.1 General Operating Fund Year-End Balances and Reserves

Part 1. Authority

Board Policy 7.1, Finance and Administrative Authority for Board, Chancellor and Presidents, delegates authority to the chancellor to develop procedures and guidelines which implement the Board of Trustees's policies for the administrative and financial management of Minnesota State.

Part 2. Definitions

Net Position Balances

Calculated under generally accepted accounting principles, net position balances are based on full accrual of all assets and liabilities. They include all assets, including property, plant, and equipment, and all liabilities, including those that will not be paid for several years. These liabilities include any long-term debt for bonds sold, compensated absences, and workers compensation. The net position balance takes a long-term view and includes all revenues earned and obligations incurred regardless of when received or paid and recognizes the depreciation of buildings and equipment.

Net position balances reported in the Annual Financial Statements for Minnesota State and individual colleges and universities will differ from year-end fund balances.

Year-End Fund Balances

The year-end fund balance is the result of beginning balance plus new revenues received minus expenditures paid within the year, and represents a current perspective of the net cash position at a point in time.

It is the policy of the board that the colleges, universities, and system office shall provide for classification of all year-end fund balances in accordance with the following distinctions.

Year-end fund balances consist of the following components:

- **Restricted.** Balances for which the use is restricted by parties external to Minnesota State or as part of Minnesota State's contractual obligations.
- **Unrestricted.** Balances for which the use is not restricted by parties external to Minnesota State or as part of Minnesota State's contractual obligations. Unrestricted balances will be designated in one of the following manners:
 1. **Designated for Programs or Other Uses.** Balances designated by the system office or the colleges and universities for programs and future specific purposes.

2. **Designated for Reserves.** Balances designated by the system office or the colleges and universities for which no use is currently planned.
3. **Undesignated.** Balances not restricted, designated, or reserved by the system office or the colleges and universities.

Reserve

That part of a college or university or the system office's year-end general fund balance which is designated as a reserve and for which no use is presently planned. Reserves for funds other than the general fund are to follow the policies and procedures established for those funds.

Systemwide enterprise

Activities or requirements employees engage in across the entire organization.

Part 3. Purpose of Reserves

System and/or college and university reserves may be called upon in cases where other reasonable methods have been insufficient to maintain a balanced budget. Generally, there are three primary uses for reserves:

1. to protect the system and individual colleges and universities in cases of sudden shortfalls in revenue (e.g., unforeseen shortfall in enrollment or a reduction in state appropriation within the biennium)
2. to cover unanticipated expenses (e.g., one-time legal fees, major disasters, unanticipated increases in utility costs)
3. to provide for extraordinary one-time investments (e.g. items consistent with institutions' comprehensive facilities or long term financial plans).

Part 4. Level of Reserves

Any college or university with a general fund reserve below five (5) percent of the general fund revenues must have a plan approved by the vice chancellor for finance and facilities addressing current fiscal conditions and including a detailed plan to achieve a minimum level. Any institution seeking to maintain reserves above ten (10) percent of the general fund revenues must have a plan approved by the vice chancellor for finance and facilities.

Part 5. Systemwide Reserve Pool

Systemwide reserves are accumulated through a combination of system office balances designated as reserves plus a systemwide reserve pool comprised of each college and university's five (5) percent of the general fund revenues required by Part 4. This systemwide reserve pool is held and managed at the system level. Amounts in the systemwide reserve pool will receive interest in the same manner as if they were not in the pool, regardless of whether portions of the pool are loaned out or not.

College and university participation in the pool must be reviewed annually and adjusted as needed.

The systemwide reserve pool will maintain a cash balance of at least 40 percent of the total pool's value each year.

Part 6. Eligibility for Use of Systemwide Reserve Pool

Consistent with the policy, the systemwide reserve pool is used at the discretion of the chancellor when a college, university, or the systemwide enterprise requires short-term financial assistance and other sources are limited. The use of the pool should align with the primary uses of reserves noted in Part 3.

College and/or university reserves beyond five (5) percent can be used at the discretion of the president.

Reserves must be properly accounted for in the accounting system and records of use maintained. Prior approval by the vice chancellor for finance and facilities is required when an institution seeks to use reserves that reside in the systemwide reserve pool.

Part 7. Loans from Systemwide Reserve Pools

Subpart A. Loans to colleges and/or universities

If a college or university must use its reserve, the president may seek assistance from the systemwide reserve pool through a formal request to the chancellor and the vice chancellor for finance and facilities. The chancellor and the vice chancellor for finance and facilities will determine the size of the loan, establish a repayment schedule including interest, and consult with the board chair and the chair of the Finance and Facilities Committee. The interest rate paid will not exceed the prior year average Invested Treasury Cash (ITC) interest rate earned. The loan interest rate will be reviewed annually and adjusted to ensure alignment between rates paid and rates earned.

The college or university must provide specific strategies by which it will re-establish its required reserve including milestones with specific dates on which progress will be made. Interim reports during the fiscal year to the chancellor and the vice chancellor for Finance and Facilities will be required.

Subpart B. Loans to the systemwide enterprise

If the systemwide enterprise requires assistance from the systemwide reserve pool, the chancellor or designee will request approval from the board. Information included in the request for approval will include the size and purpose of the loan, and the repayment schedule established including interest. The interest rate paid will not exceed the prior year average Invested Treasury Cash (ITC) interest rate earned. The loan interest rate will be reviewed annually and adjusted to ensure alignment between rates paid and rates earned.

The chancellor or designee will provide specific strategies by which system-level funds will be available to repay the loan to the pool, including milestones with specific dates on which progress will be made. Interim reports during the fiscal year to the board may be required.

Part 8. Reporting

The chancellor must report periodically and at a minimum annually to the board concerning the uses of and outlook for the systemwide reserve pool, system reserve, and the outlook for college and university reserves. The systemwide reserve pool report will include a list of requests approved, the purpose, and dollar amount approved, and the repayment schedule.

Related Documents:

System Procedure 7.3.16 – Financial Health Indicators
Operating Instruction 7.3.16.2 – Financial Health Indicator Responses

Date of Adoption: 12/18/02
Date of Implementation: 12/18/02
Date of Last Review: 05/28/25

Date and Subject of Amendments:

5/28/25 – Five-year Review. Definitions were added and clarified. Amendment increases the cap on college and university reserves to 10% while maintaining a minimum of 5%. Amended to provide structure for the systemwide reserve pool.

3/06/15 - Periodic review complete. Procedure 5.10.1 went through a periodic review. Only technical changes were made to the existing procedure.

1/25/12 - The Chancellor amends all current system procedures effective February 15, 2012, to change the term “Office of the Chancellor” to “system office” or similar term reflecting the grammatical context of the sentence.

No additional HISTORY.