

Overview of Fund Balances

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Overview of Fund Balances

What is it?

Who has an interest in fund balances?

Variations on definition and composition?

BOR Policy and System-wide financial strategy

Trends in fund balance levels

What is 'fund balance'?

Definitionally, fund balances are the difference between what an entity has, and what an entity owes, at a particular point in time

Fund balances are further delineated by:

- Unrestricted – no external constraints on use (but commitments or authorizations to use may be in place)
- Restricted – external stipulations on use of resources (endowments, grant monies not yet spent, unspent bond proceeds)
- Net Investment in Plant – the carrying value of land, facilities and equipment less debt outstanding

Who has an interest in fund balances?

- ***USM community***– to ensure that adequate funds are available for critical and important initiatives, to facilitate needed facilities upkeep, and to provide liquidity to ensure the lowest capital financing costs. The audited financial statements represent the most comprehensive and authoritative record of financial position and results of operations.
- ***USM bond purchasers*** – to ensure that bondholders have adequate protection in the form of reserves as a % of debt outstanding. Rating agencies consider the level of fund balances of the state institutions, plus the unrestricted fund balances of the affiliated foundations included in the System’s financial statements, as well as any debt reported by those entities.
- ***State & local officials*** – to ensure that state-supported activities receive the right amount of operating and capital funding relative to need. Fund balances and accounting is done on what can be described as ‘statutory accounting’ practices, which are maintained on a ‘modified cash basis’.

Variations on what is included or not in fund balances used by different groups

Group	GAAP-based USM institution Financial Statements Fund Balances	GAAP-based USM foundations Financial Statements Fund Balances	Adjustments for Pension Liability, Accrued Leave	Statutory accounting- based fund balances	Commitments and authorizations not yet spent per financial statements
Regents, Chancellor, USM presidents	X	X		X	X
Rating Agencies	X	X	X		
State officials				X	

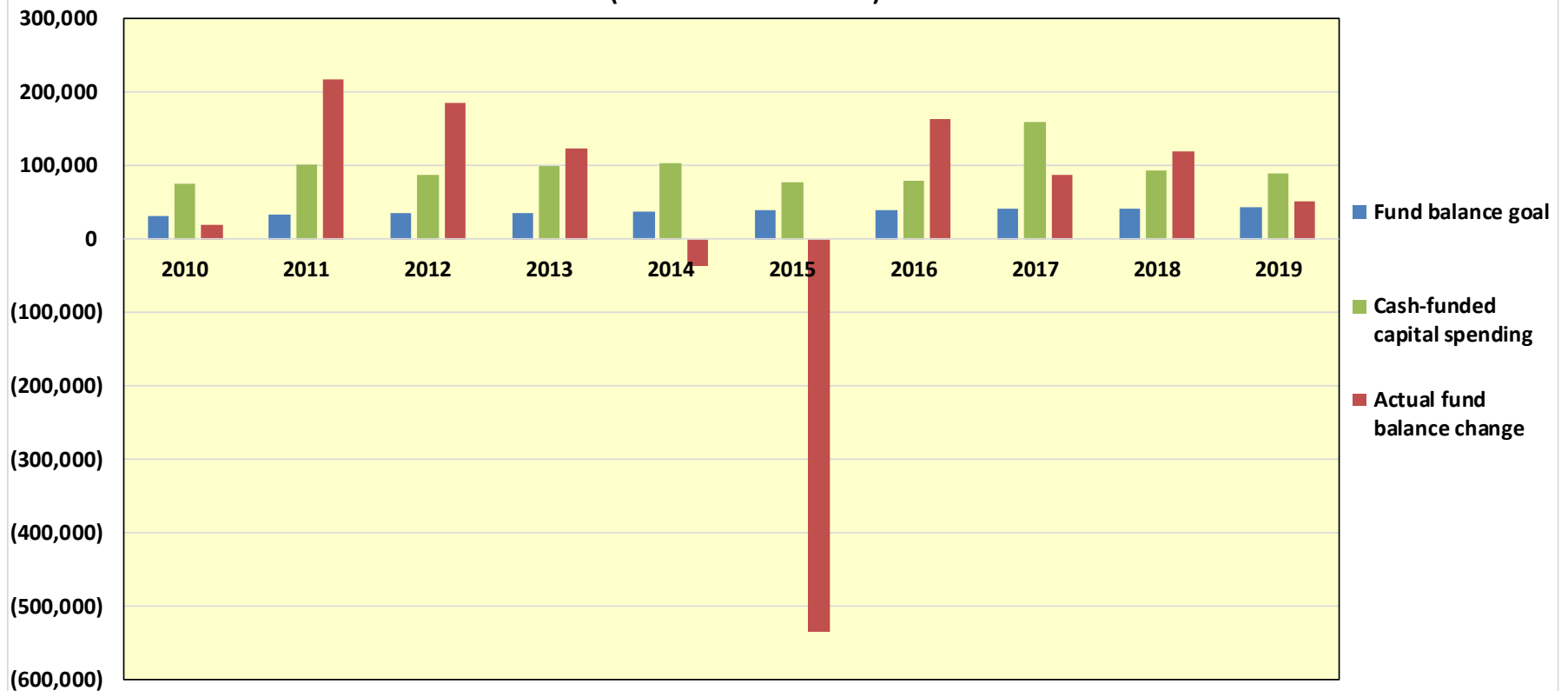
Formal and legal control of financial matters impacting fund balances

- Universities – institution presidents oversee operations
- Affiliated foundations – each have their own governing board
- Endowment funds – owned by System – Board of Regents
- Endowment funds – owned by foundations – governing boards of affiliated foundations
- System-wide – Board of Regents policy on debt authorizations, capital project / major spending approvals; use of fund balance goal as a president's performance goal
- Chancellor – approval authority on spending between \$1M and \$5M
- State government – state funding, collaboration on tuition levels, coordination on state-wide workforce and public policy goals

BOR Policy / System-wide Financial Controls

- Authority is shared between institution presidents, Chancellor and Regents, for managing System-wide financial health
- Institution presidents responsible for managing operating activities to produce an annual increase in reserves of at least 1% of unrestricted spending – president's performance goal
- Regents authorize cash-funded capital projects over \$5M (\$1M to \$5M at chancellor authority)
- Regents authorize debt-funded capital projects
- Above enables System-wide tracking of Regents / chancellor authorizations needed for financial planning

**Fund balance goal, Cash-funded capital spending and
Actual changes in unrestricted fund balances
FY 2010 - 2019
(amounts in thousands)**



Track-record of USM Unrestricted Fund Balance Levels

Changes in fund balances and debt
(from audited USM financial statements)
FYE 2003 - 2019
in thousands

