



RESOLUTION

concerning

FUND BALANCE GUIDELINES

February 2, 2001

WHEREAS, The Board of Trustees under the provisions of Section 10a-89(a)(1) of the Connecticut General Statutes shall "...Make rules for the government of the Connecticut State University system and shall determine the general policies of the university system, including...the expenditure of the funds of institutions under its jurisdiction within the amounts available;" and

WHEREAS, Positive fund balances are essential to ensure the operational continuity of the universities, and

WHEREAS, The Board of Trustees has established fund balance guidelines to ensure the maintenance of reasonable positive fund balances by the universities and the system office, now therefore be it

RESOLVED, That BR#97-59 is rescinded, and be it further

RESOLVED, That the revised fund balance guidelines shown in the addendum to this resolution are approved effective this date, and be it further

RESOLVED, That the fund balance guidelines be reviewed at least every three years to determine their adequacy and revised as determined appropriate.

A Certified True Copy:

William J. Cibes, Jr.
Chancellor

Addendum

FUND BALANCE GUIDELINES

Operating Fund

The operating fund from a funds accounting perspective is known as the current fund, and accounts for those economic resources which are expendable for carrying out the primary purpose or general operation of the university: instruction, research, and public service. The current fund consists of two subgroups - unrestricted current funds and restricted current funds.

Current unrestricted funds are resources received by a university that have no limitations or stipulations placed on their use by external agencies or donors. These funds are often deemed the most desirable resources for an institution, since they offer the widest range of flexibility concerning how monies can be spent. Tuition, fees, and legislative appropriations are typical examples of revenue sources received as unrestricted current funds.

Current restricted funds are resources provided to a university that have externally established limitations or stipulations placed on their use. Such restriction can be broad or very specific.

Designated funds result from internal designations placed on resources by the governing board or institutional management and constitute an allocation of current unrestricted funds. These designations can change at any time. Any unrestricted resources designated to specific fund groups (plant, loan, or quasi-endowment) are included in such fund groups by a transfer, which can be either mandatory or non-mandatory, depending on the circumstances.

Within the Connecticut State University System, the Board of Trustees, the Chancellor, and the university presidents or their designees are authorized to designate funds for certain purposes such as major expenditures that may require more funds than would be available for the specific purpose in a single year or for a future project. Funds so designated will be accounted for in a specific account/fund within the accounting system. Items e) and f) shown below must be designated each year.

Current fund balances must be sufficient to:

- a) finance open commitments including multi-year projects not structured on a fiscal year basis, such as implementation of large information systems;
- b) provide for major expenditures that may require more funds than would be available for the specific purpose in a single year or for a future project;
- c) maintain an unrestricted fund balance without deduction for the reserve for accrued compensated absences but including the impact of all assets due from the State of Connecticut and all liabilities due to the State of Connecticut ("adjusted unrestricted fund balance") of no less than five (5) percent of the university's total budgeted *educational and general expenditures and auxiliary services expenditures* for the current fiscal year within the current fund in order to provide financial stability in the event of unfavorable economic conditions. However, an adjusted unrestricted fund balance of above ten (10) percent of the university's total budgeted educational and general

expenditures and auxiliary services expenditures is not encouraged, since funds greatly exceeding minimum fund balance guidelines should be prudently used for ongoing educational purposes. Should a university's adjusted unrestricted fund balance fall below the five (5) percent level, the university president will begin a process in conjunction with the Chancellor and the Board to develop an action plan to restore the contingency fund balance to the designated level within a reasonable time;

- d) maintain a systemwide unrestricted fund balance without deduction for the reserve for accrued compensated absences but including the impact of all assets due from the State of Connecticut and all liabilities due to the State of Connecticut ("adjusted unrestricted fund balance") of no less than three (3) percent of the system's total budgeted *educational and general expenditures* of the current fiscal year at the system level in order to respond to unforeseen economic circumstances within the system. Should the contingency fund fall below this level, the Chancellor will begin a process in conjunction with the Board to develop an action plan to restore the adjusted fund balance to the designated level within a reasonable time.
- e) maintain a refurbishing and equipment replacement/acquisition fund by designating not less than one (1) percent nor more than five (5) percent of *housing and food service fee revenues* annually for the purpose of meeting the annual refurbishing and equipment replacement and acquisition requirements of these activities. These designated funds should be transferred to the plant fund.
- f) maintain a telecommunications system equipment replacement fund to provide for ongoing telecommunication equipment replacement and upgrade. Three hundred thousand (\$300,000) dollars will be transferred annually from the revenues of the telecommunication system operation to this fund.

Plant Fund

Plant fund purposes consist of the following: plant construction or acquisition; payment of interest and principal on plant-related debt; and renewal and replacement of facilities (including maintenance of plant). Funds received from outside providers for capital projects may not be used for other purposes unless approved by the provider.

1. Debt Service

Fund balances maintained in the plant fund for debt service are transferred to this account from the current fund to meet statutory requirements to pay for campus self-supporting construction projects. Interest earned on these funds is unrestricted, but is designated for debt service purposes in order to minimize student fee charges.

2. Transfer of Unrestricted Funds into the Plant Fund

Universities and the System Office may transfer unrestricted current operating funds into the plant fund. Other unrestricted funds transferred to the plant fund for a specific future project may be made available to fund other plant fund needs depending upon the status of the project for which they were designated. Annually, each university and the System Office is to provide to the Board of Trustees a report listing the designated purpose(s) and amount(s) of all unrestricted current operating funds transferred into the plant fund in that year. This report is to be provided to the Finance and Administration Committee at its last meeting of the calendar year.

Other Funds

Unrestricted, self-supporting funds, such as those resulting from entrepreneurial activities or university self-supporting units, may also have unrestricted fund balances. Fund balances for these types of activities will vary depending upon the scope of the activity and will remain with the activity or unit during its lifetime. Should an activity find its fiscal viability threatened, the university president will make a determination as to the continued existence of the activity.

Unrestricted revenues of other funds such as the endowment fund group, loan fund group, annuity/life income fund group and the research fund, if realized, may be designated for certain purposes by the appropriate authority(s).

Use of Fund Balances

Any use of fund balances of \$250,000 or greater for plant purposes, whether or not the funds being used are from the plant fund, must be approved by the Board of Trustees. Ordinarily this approval will take place at a regularly scheduled meeting of the Board of Trustees; however, in urgent cases, a vote of the Executive Committee, acting on behalf of the Board as authorized by Article III, Section 1 of the bylaws of the Board of Trustees for the Connecticut State University System, may be substituted.

Revised portions of the policy have been highlighted in bold.

ITEM

Fund Balance Guidelines

BACKGROUND

In October 1994, the Board of Trustees established fund balance guidelines to ensure the fiscal viability of the system. The fund balance guidelines were revised in July of 1997 to provide more specificity regarding the authorization of and accounting for designated fund balances. **The guidelines are now being revised to more clearly reflect working capital available at the universities, as well as provide more guidance regarding the use of the plant fund.**

ANALYSIS

Guidelines

These guidelines apply to unrestricted fund balances within the current fund and other fund groups.

A fund balance represents the net difference between an institution's assets and its liabilities within a fund or fund group. The fund balance provides a cushion against unforeseen economic circumstances and provides an indicator of the fiscal health of an institution when compared to the current fund operating budget.

Operating Fund

The operating fund from a funds accounting perspective is known as the current fund, and accounts for those expendable resources used to carry out the primary purpose or general operation of the university: instruction, research, and public service. The current fund consists of two subgroups - unrestricted and restricted funds.

Unrestricted funds are resources received by a university that have no limitations or stipulations placed on them by external agencies or donors. These funds offer the widest range of flexibility on how monies can be spent. Tuition, fees and legislative appropriations are typical examples of unrestricted current funds.

Restricted funds are resources provided to a university that have externally established limitations or stipulations placed on their use. Such restriction can be broad or very specific. Unrestricted and restricted funds are accounted for separately.

Designated funds result from internal designations placed on resources by the governing board or institutional management and constitute an allocation of current unrestricted funds. These designations can change at any time. Any unrestricted resources designated

to specific fund groups (plant, loan, or quasi-endowment) are included in such fund groups by a transfer, which can be either mandatory or non-mandatory, depending on the circumstances.

Within the Connecticut State University System, the Board of Trustees, the Chancellor, and the university presidents or their designees are authorized to designate funds for certain purposes such as major expenditures that may require more funds than would be available for the specific purpose in a single year or for a future project. The designated funds will be specifically identified within the accounting system. Items c) and f) shown below must be designated each year.

Current fund balances must be sufficient to

- a) finance open commitments including multi-year projects not structured on a fiscal year basis, such as implementation of large information systems;
- b) provide funds designated for major expenditures that may require more funds than would be available for the specific purpose in a single year or for a future project;
- c) provide for an equipment acquisition/replacement and refurbishing fund by designating not less than one (1) percent nor more than five (5) percent of *housing and food service fee revenues* annually for the purpose of meeting the annual refurbishing and equipment replacement/acquisition requirements of these activities. **These designated funds should be transferred to the plant fund.**
- d) provide for an unrestricted fund balance **without deduction for the reserve for accrued compensated absences but including the impact of all assets due from the State of Connecticut and all liabilities due to the State of Connecticut** (“adjusted unrestricted fund balance”) of no less than five (5) percent of the university’s total budgeted *educational and general expenditures and auxiliary services expenditures* for the current fiscal year within the current fund in order to provide financial stability in the event of unfavorable economic conditions. **However, an adjusted unrestricted fund balance of above ten (10) percent of the university’s total budgeted educational and general expenditures and auxiliary services expenditures is not encouraged, since funds greatly exceeding minimum fund balance guidelines should be prudently used for ongoing educational purposes.** Should a university’s adjusted unrestricted fund balance fall below the five (5) percent level, the university president will begin a process in conjunction with the Chancellor and the Board to develop an action plan to restore the contingency fund balance to the designated level within a reasonable time;
- e) maintain a systemwide unrestricted fund balance **without deduction for the reserve for accrued compensated absences but including the impact of all assets due from the State of Connecticut and all liabilities due to the State of Connecticut** (“adjusted unrestricted fund balance”) of no less than three (3) percent of the system’s total budgeted *educational and general expenditures* of the current fiscal year at the system level in order to respond to unforeseen economic circumstances within the system. Should the contingency fund fall below this level, the Chancellor

will begin a process in conjunction with the Board to develop an action plan to restore the adjusted fund balance to the designated level within a reasonable time.

- f) provide for a telecommunications system equipment replacement fund. Three hundred thousand dollars (\$300,000) will be transferred annually from the revenues of the telecommunication system operation's current fund to a plant account(s) to provide for on-going telecommunication equipment replacement and upgrade.

Plant Funds

Plant fund purposes consist of plant construction or acquisition, payment of interest and principal on plant-related debt, and renewal and replacement of facilities (including maintenance of plant). Funds received from outside providers for capital projects may not be used for other purposes unless approved by the provider.

Fund balances maintained in the plant fund for debt service are transferred to this account from the current fund to meet statutory requirements to pay for campus self-supporting construction projects. Interest earned on these funds is unrestricted, but is designated for debt service purposes in order to minimize student fee charges.

Universities and the System Office may transfer unrestricted current operating funds into the plant fund. Other unrestricted funds transferred to the plant fund for a specific future project may be made available to fund other plant fund needs depending upon the status of the project for which they were designated. **Annually, each university and the System Office must provide to the Board of Trustees a report listing the designated purpose(s) and amount(s) of all unrestricted current operating funds transferred into the plant fund in that year. This report is to be provided to the Finance and Administration Committee at its last meeting of the calendar year.**

Other Funds

Unrestricted, self-supporting funds, such as those resulting from entrepreneurial activities or **university self-supporting units**, may also have unrestricted fund balances. Fund balances for these types of activities will vary depending upon the scope of the activity and will remain with the activity or unit during its lifetime. Should an activity find its fiscal viability threatened, the university president will make a determination as to the continued existence of the activity.

Summary

The fund balance guidelines are designed to ensure the fiscal viability of the universities. Terms appropriate to this subject have been defined and parameters have been established relative to purposes for and appropriate levels of institutional operating funds. **Additionally, the guidelines provide guidance as to the use of plant funds. The guidelines also direct that any use of fund balances of \$250,000 or greater for plant purposes, whether or not the funds being used are from the plant fund, must be**

approved by the Board of Trustees. Ordinarily this approval will take place at a regularly scheduled meeting of the Board of Trustees; however, in urgent cases, a vote of the Executive Committee, acting on behalf of the Board as authorized by Article III, Section 1 of the bylaws of the Board of Trustees for the Connecticut State University System, may be substituted. Finally, the guidelines indicate that a university or the System Office is to engage in a consultative process to develop a plan to restore fund balances to the appropriate level should they fall below the prescribed level.

References

National Association of College and University Business Officers (NACUBO) manual - Financial Accounting and Reporting Manual for Higher Education (current).

CHANCELLOR'S RECOMMENDATION

Approve the revised fund balance guidelines.

Glossary of Terms

Fund Accounting - The fundamental purpose of fund accounting is to properly account for all resources received and used. Fund accounting is a methodology which classifies all resources into funds according to specific restrictions placed on their use by the funding source. Classification recognizes the stewardship responsibility inherent in accounting restricted resources from external parties.

Fund - self-balancing set of accounts. It includes revenues, expenditures, transfers, assets, liabilities, and a fund balance.

Fund Group - a group of funds such as in the endowment fund group. For simplicity, fund and fund group are used interchangeably in this paper.

Fund Balance - represents the net difference between a fund's assets and liabilities. Also referred to as "Reserves".

Restricted Funds - assets provided to the university subject to legally binding limitations on their use. These limitations are imposed by the donor, grantor, or other fund provider outside the institution. Additionally, statutory limitations may also apply. An institution that accepts such assets must abide by the externally imposed restrictions. At times an institution may find it impractical or impossible to comply with restrictions specified in a gift document. In most jurisdictions, a specific legal procedure is used wherein the court is asked to construe or modify the original deed of gift so that the donee institution may use the resources for a purpose that is "near to" the original restriction. To preclude the necessity for this type action, it is incumbent upon the Board of Trustees to determine whether the restrictions placed upon the use of the funds are acceptable to the system.

Unrestricted Funds - assets received by an institution are considered to be unrestricted when there is no legally binding restriction on their use. All unrestricted assets received are, by their nature, fully expendable. Generally, there is the presumption that funds are unrestricted unless there is evidence of a restriction.

Educational and General Expenditures - those economic resources expended to carry out the primary purposes of colleges and universities: instruction, research, and public service.

Auxiliary Enterprises - entities that exist predominantly to furnish goods or services to students, faculty or staff and charge a fee directly related to the cost of the goods or services. Auxiliary enterprises include residence halls, food services, intercollegiate athletics (if essentially self-supporting), and services such as day care centers and other similar activities. These funds are generally unrestricted. However, they may be designated for other purposes by the Board or management.

Endowment and similar funds - includes amounts that are to be invested, with the income to be used for institutional purposes. If the donated assets (principal) are to be retained for investment purposes in perpetuity, such amounts are classified as endowment funds. These funds by their very nature are restricted funds. If the nonexpendable character is to terminate at some future date or on the occurrence of a projected event, the donated principal is classified as a term endowment. The income from investment of both endowment and term endowment assets may be restricted to a particular purpose or may be unrestricted. In all but rare cases, these funds are restricted.

Contingency Funds - the portion of the current fund balance that is not restricted or designated.

Designated Funds - represents resources allocated by the governing board or management and are not restricted in the true sense, since any self-imposed designation can be removed.

Loan Funds - used to account for resources that may be lent to students, faculty, or staff; they are provided from various sources such as gifts, bequests, governmental grants, and student fees. These funds are generally restricted. However, the Board or institution may designate unrestricted current funds for this purpose and, in that case, these funds may be undesignated at any time.

Annuity and Life Income Funds - funds received by an institution under deferred-giving agreement contracts. These contracts provide that an income be paid to the donor, the donor's designee, or a combination thereof for the lifetime of the recipient(s) or a specific time period. At the termination of the contracts, the funds become available for general institutional purposes or for any restricted purpose designated by the donor in the contract, or for a fixed period of time.

Agency Funds - monies held by institutions acting as custodian or fiscal agent for funds deposited by students, student organizations, faculty, staff, and various other deposits. These funds are not owned by the institution and may not be designated for any institutional purposes.

Plant Funds (group) - used to account for unexpended plant funds to acquire long-lived assets for institutional purposes; funds set aside for the maintenance, renewal and replacement of institutional properties; funds set aside for debt service charges and retirement of indebtedness on institutional plant; and the cost (or fair market value at time of donation) of long-lived assets (other than those of endowment and similar funds), depreciation, and the sources from which the cost is funded, including associated liabilities. These funds are generally restricted. However, unrestricted current funds may be transferred to the plant fund and designated for a specific plant project.