



# Minnesota Management & Budget Statewide Operating Policy

Minnesota Management and Budget, General Accounting  
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## Establishing or Modifying Funds

### Objective

To provide guidelines for establishing, modifying or deactivating a fund in the statewide accounting system in accordance with [Minnesota Statutes 16A.53](https://www.revisor.mn.gov/statutes/?id=16A.53) (<https://www.revisor.mn.gov/statutes/?id=16A.53>), federal requirements, Governmental Accounting Standards Board (GASB) Codification, Section 1300, and GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions."

### Policy

Minnesota Statute 16A.53 gives the commissioner of Minnesota Management and Budget (MMB) the authority to establish and maintain funds in the state's accounting system. New funds may be established when required by constitutional law or federal regulations. In addition, funds may be established for reasons of sound financial management or in order to comply with Generally Accepted Accounting Principles (GAAP). The commissioner is given the latitude of creating bookkeeping accounts where law requires the creation of a fund to ensure the state's records are maintained in accordance with GAAP.

GASB Codification, Section 1300.118 – Fund Accounting-Number of Other Funds- states "The general rule is to establish the minimum number of separate funds consistent with legal specifications, operational requirements, and the principles of fund classification. Using too many funds causes inflexibility and undue complexity in budgeting, accounting, and other phases of financial management, and is best avoided in the interest of efficient and economic financial administration."

In order to establish a new fund, one of the following three (3) criteria must be met:

1. The law requires the establishment of a new fund. A separate fund is necessary to comply with constitutional requirements or federal regulatory requirements;
2. GAAP requires separate fund financial statements to be prepared; or,
3. A majority of the following criteria are met:
  - a. The fund is material enough in relationship to other activities. The fund has a minimum average annual activity of \$10,000,000. The fund has enough resources available to cash flow the activity when the program begins.
  - b. The activity of the fund is ongoing or permanent. A separate fund is necessary if the need exists for tracking assets and liabilities beyond the fiscal year (a separate general ledger).
  - c. The program is complex and requires oversight.
  - d. The need exists for a separate fund to consolidate funding resources/activities that cross agency lines.

- e. The establishment of a new fund will significantly improve an agency's management of resources. For instance, if an agency currently uses a side system to capture needed information, the establishment of a new fund will enable the agency to capture information in the accounting system and eliminate the use of the side system.

Modifications to existing funds are limited to name changes or the deactivation of a fund. Acceptable reasons for name changes are to provide additional clarification of the purpose of the fund or are the result of a statutory change in the name. When a fund is no longer used, it can be marked as inactive, but cannot be deleted from the system.

Requests to establish, modify or deactivate a fund must be submitted to MMB for approval by the commissioner or designated representative. If there are insufficient criteria to justify establishing a new fund, agencies should work with their executive budget officer (EBO) to explore alternative ways to address their needs.

## Definitions

### Fund –

A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Financial activities for state governments fall into three broad categories:

- Governmental Funds – Used to account for activities primarily supported by taxes, grants, and similar revenue sources
- Proprietary Funds – Used to account for activities that receive significant support from fees and charges
- Fiduciary Funds – Used to account for resources that a government holds as a trustee or agency on behalf of an outside party and that cannot be used to support the government's own programs

Within each of the three broad categories, individual funds are further categorized by fund type.

### Governmental Funds

All governmental funds can be classified into one of five fund types:

1. General fund – Government's main operating fund. Used by default to account for and report all financial resources not accounted for and reported in other funds.
2. Special revenue funds - Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. One or more specific restricted or committed revenues should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue sources should be expected to continue to comprise a substantial portion of the inflows reported in the fund.
3. Capital projects funds - Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
4. Debt service funds – Used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be

used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

5. Permanent funds – Used only to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

### Proprietary Funds

Proprietary funds can be classified into two fund types:

1. Enterprise funds – May be used to report any activity for which a fee is charge to external users for goods and services. A given activity must be accounted for in an enterprise fund if it meets any of the following criteria:
  - a. There is outstanding debt that is backed solely by fees and charges;
  - b. Laws or regulations require that fees and charges by set to recover costs, including capital costs such as depreciation or debt service; or
  - c. There is a pricing policy that fees and charges be set to recover costs, including capital costs such as depreciation or debt service.
2. Internal service funds – Used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

### Fiduciary Funds

Fiduciary funds include funds that involve a trust agreement that affects the degree of management involvement and the length of time that the resources are held (trust funds) and funds that involve only the receipt, temporary investment, and remittance of fiduciary resources (agency funds). All fiduciary funds can be classified into four fund types:

1. Pension (and other employee benefit) trust funds – Used to report resources that are required to be held in trust for the members and beneficiaries of define benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.
2. Investment trust funds – Used to report the external portion of investment pools reported by the sponsoring government. A separate fund must be reported for each external pool.
3. Private-purpose trust funds - Used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.
4. Agency funds – Used to report resources held by the reporting government in a purely custodial capacity.

### **Component Unit Fund –**

A fund number assigned in the 8000 range to a component unit of the State of Minnesota. Component units are legally separate entities that meet fiscal dependency criterion, have a financial benefit or burden relationship with the state, or would be misleading to exclude. Refer to GASB Statement No. 14 “The Financial Reporting Entity”, GASB Statement No. 39 “Determining Whether Certain Organizations Are Component Units”, and GAB Statement No. 61 “The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34” for more specific criteria.

### **Other Fund –**

A fund that is established to track specific activities that does not meet one of the definitions above.

## **Related Policies and Procedures**

[MMB Statewide Operating Procedure 0201-01.1 Request to Establish or Modify a Fund](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-2/0201-01-01-funds-procedure.pdf)  
(<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-2/0201-01-01-funds-procedure.pdf>)

### **See also**

[Minnesota Statutes Section 16A.53 – Bookkeeping Accounts](https://www.revisor.mn.gov/statutes/?id=16A.53)  
(<https://www.revisor.mn.gov/statutes/?id=16A.53>)

[Governmental Accounting Standards Board \(GASB\) Codification, Section 1300 – Government Accounting Research System \[GARS\] – subscription based access](https://gars.gasb.org/) (<https://gars.gasb.org/>)

[Governmental Accounting Standards Board \(GASB\) Statement No. 54: Fund Balance Reporting and Governmental Fund Type Definitions](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159972156)  
([http://www.gasb.org/cs/ContentServer?site=GASB&c=Document\\_C&pagename=GASB%2FDocument\\_C%2FGASBDocumentPage&cid=1176159972156](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159972156))

[MMB Statewide Operating Form 0201-01F Requesting to Establish or Modify Funds](http://mn.gov/mmb-stat/documents/accounting/forms/0201-01-fund-request-form.docx) (<http://mn.gov/mmb-stat/documents/accounting/forms/0201-01-fund-request-form.docx>)