



Agency Policies and Procedures

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Interest Income

Policy Objectives:

Agency policies and procedures for interest income are designed to:

- Ensure consistent accounting treatment for all interest income received agency-wide;
- Provide assurances that interest received is accounted for, and reported accurately; and
- Provide assurances that the interest is expended in accordance with the rules governing the origination of the principal.

Background Information:

Admin receives three general types of interest income; interest derived from the master lease program, interest earned on the investment of Risk Management Division internal service funds, and interest earned on gift funds.

Authority:

- **Minnesota Statutes**

M.S. § 16A.85 Master Lease – This statute authorizes the commissioner of Admin to determine, in conjunction with the commissioner of finance, the personal property needs of the various state departments, agencies, boards, commissions and the legislature that may be economically funded through a master lease program. The treatment of master lease interest income is also specified in this statute.

M.S. § 16B.85, subd. 2 Risk Management – This statute defines the treatment of interest derived from the investment of Risk Management internal service funds.

Business Risks:

- In the event interest income is inappropriately accounted for, or expended, Admin may be required to refund the amount from a source other than the origination of the interest income.
- Possible overstatement/understatement of net income, and/or balance sheet items.
- Breach of contractual conditions stipulating how the interest earned on gift funds may be expended.
- Loss of interest received if proper notifications are not sent for request of interest.
- Misappropriation of interest funds.

Policies and Procedures:

PART ONE – MASTER LEASE INTEREST CREDIT

Master Lease Interest Income – Interest received from the proceeds of the certificates of participation in the master lease program.

1. Interest is calculated on a monthly basis using current interest rates set by the Department of Minnesota Management and Budget (MMB). The Financial Management and Reporting (FMR) Division accountant will use this rate to update

the internal amortization schedules, and to obtain current interest credits.

2. On a quarterly basis, the FMR Division accountant will request, through a memo to MMB, the current period's interest credit. The memo should include:
 - A. The master lease program number,
 - B. Months involved,
 - C. Amount due,
 - D. Where the credit should be deposited, (fund, org, appropriation unit and fiscal year), and
 - E. Attachment of all amortization schedules and summary sheets.
3. To be approved for this credit, the FMR Division accountant must establish a revenue budget for each appropriation that earns the invested treasurer's cash (ITC credit). Revenue budgets will be set up with the revenue source code 8000. When the credit is deposited into the appropriate fund, the Department of Minnesota Management and Budget will also charge an allocated amount of normal processing and handling fees associated with the master lease program. MMB always offsets this expense against the credit issued to the participating agencies.

PART TWO – RISK MANAGEMENT INTEREST

Interest earned on the investment of Risk Management Division internal service funds shall be deposited into their fund on a monthly basis. A revenue budget using the 8000 revenue source code must be set up in order for MMB to make the monthly interest deposit. MMB makes this deposit automatically within the first ten days of the next month. Once the interest is deposited into the MAPS system, the FMR Division accountant will make the appropriate entry into the agency's financial records.

PART THREE – GIFT FUND INTEREST

Interest received on gifts should be deposited to the fund in which the interest was earned, and expended in accordance with the regulations governing the gifts the interest was earned on. A revenue budget using revenue source code 8000 must be set up in order for the interest to be applied. Once a quarter, MMB will deposit the invested treasurer's cash into the appropriate fund.

When a new gift account is needed in MAPS (fund 690), the FMR Division accountant will notify MMB with the new funding information. If MMB is not notified, no interest will be credited to the new gift account.