



Minnesota Management & Budget Statewide Operating Policy

Minnesota Management and Budget, Financial Reporting
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Financial Reporting

Objective

To provide guidance on the requirements for reporting the State of Minnesota's financial activity in the Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP). This overall policy on financial reporting also points the reader to other policies and procedures which provide specific guidance on subject areas related to accounts receivable, accounts payable, capital assets, etc.

Note: This policy does not address additional reporting requirements applicable to federal funds. See MMB Statewide Operating Policies and Procedures Chapter 4 for this guidance.

Policy

The State of Minnesota is required by Minnesota Statutes Section 16A.50 to issue a Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP) by December 31 of each year. The starting point for the financial statements is the statewide accounting system. However, there are many adjustments required to convert the data in the financial reporting system to the basis of accounting required for the various financial statements included in the CAFR. This policy provides links to other policies that provide more details on these adjustments and outlines other items to consider for financial reporting. Links to these policies and procedures can be found in the [Related Policies and Procedures section](#) at the end of this document.

Accounts and Loans Receivable

- See MMB Statewide Operating Policy 0501-01 Managing and Financial Reporting of Accounts Receivable
- See MMB Statewide Operating Policy 0502-01 Managing and Reporting Loans Receivable

Liabilities

- See MMB Statewide Operating Policy 0111-01 Financial Reporting of Liabilities

Capital Assets

- See MMB Statewide Operating Policies 0106-01, 0106-02, 0106-03, 0106-04, 0106-05, 0106-06, 0106-07, 0106-08, and 0106-09 related to capital asset; land; buildings, structures and improvements; construction in progress; development-in-progress, infrastructure; intangibles including internally-generated computer software and easements; art and historical treasures; and equipment, furniture and fixtures reporting.

Other Items

State Agencies are asked to notify MMB Financial Reporting about new or changed programs and processes that are material to ensure these activities are accurately reported in the CAFR. Agencies are also asked to notify MMB Financial Reporting of the following:

- Grant advances – When the state provides funds to a subrecipient in advance of subrecipient expenditures and amounts are outstanding at June 30.
- Capital grants – Used solely for capital purposes.
- Joint ventures – Special arrangements entered into with another non-state governmental unit to jointly obtain or provided needed services.
- Short-term debt – Short-term borrowing done by the state.
- Loans payable – Third-party financing arrangements entered into by the state. Report the current and noncurrent portions separately.
- Material changes in how activities are recorded in the accounting system
- Variances/changes in the volume of financial activity from the previous year. Explain why account balances are materially different than the prior year, why fund activity fluctuated between years, and why there are unusual transactions. This would include material new programs or significant reductions in programs.
- Restrictions, commitments and contingencies – Report information on material restrictions, commitments, and/or contingencies that may have an impact on the financial position (net assets), operations (revenues, expenditures, transfers) of your agency, and/or other changes that may require disclosure to the users of the financial statements.
- Extraordinary items – Defined by GASB 34 as “transactions or other events that are both unusual in nature and infrequent in occurrence.”
- Special items – Defined by GASB 34 as “significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.”
- Cost allocation systems – Include information regarding any significant changes to the internal cost allocation systems used by an agency.
- Subsequent events – Include information regarding any events or financial transactions that occurred after June 30 that are significant and require disclosure because of actual or possible effects on the financial operations and/or condition of an agency.
- Service concession arrangements – An arrangement between a transferor (a government) and operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. GASB Statement No. 60 applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Statement also provides guidance for governments that are operators in an SCA.
- Nonexchange financial guarantees – A guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions. GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions extended or received by a state or local government.

Fund Balance Classifications (Governmental Funds)

In governmental funds, fund balance is the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance classifications should depict the

nature of the net resources that are reported in a governmental fund. An individual governmental fund could include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications.

- **Nonspendable Fund Balance** - The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash such as inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned) rather than nonspendable fund balance. The principal of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
- **Restricted Fund Balance** – Fund balance should be reported as restricted when constraints placed on the use of the resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. “Enabling legislation” authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purposes stated in the legislation. Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for the purposes specified by the legislation. In addition, the restriction must be established at the same time the revenue stream is created. Examples include gifts required to be used for specific purposes and the Legacy Amendment to the Minnesota Constitution, which increased the state sales tax and specified that those taxes be used for clean water, arts and cultural heritage, and outdoors.
- **Committed Fund Balance** - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. One example is taconite taxes that were established prior to the time a fund was established. Later, the legislature committed a portion of the taconite taxes for rehabilitation and diversification of industrial enterprises.
- **Assigned Fund Balance** - Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements. Intent should be expressed by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. One example is a commissioner of an agency who budgets a certain amount to be used for a specific purpose.
- **Unassigned Fund Balance** - Unassigned fund balance is the residual classification for the General Fund and represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. Other governmental funds may report a negative unassigned fund balance if expenditures incurred for specific purposes exceed the amounts restricted and committed to those purposes.

Net Position Classifications (Proprietary Funds)

Proprietary Funds report Net Position, which is the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. Net Position may be classified in three different ways: Net Investment in Capital Assets, Restricted Net Position, or Unrestricted Net Position.

- Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, capital leases, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation but instead be included in the same net position component (restricted or unrestricted) as the unspent amount.
- Restricted Net Position - This component of net position occurs when constraints placed on the use of net position are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position - This component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Related Policies and Procedures

[MMB Statewide Operating Policy 0106-01 Capital Asset Reporting Policy](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-01-capital-asset-reporting-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-01-capital-asset-reporting-policy.pdf)

[MMB Statewide Operating Policy 0106-02 Land and Land Improvements Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-02-land-improvements-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-02-land-improvements-policy.pdf)

[MMB Statewide Operating Policy 0106-03 Buildings, Structures, and Improvements Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-03-buildings-improvements-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-03-buildings-improvements-policy.pdf)

[MMB Statewide Operating Policy 0106-04 Construction in Progress Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-04-construction-in-progress-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-04-construction-in-progress-policy.pdf)

[MMB Statewide Operating Policy 0106-05 Development in Progress Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-05-development-in-progress-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-05-development-in-progress-policy.pdf)

[MMB Statewide Operating Policy 0106-06 Infrastructure Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-06-infrastructure-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-06-infrastructure-policy.pdf)

[MMB Statewide Operating Policy 0106-07 Intangibles – Including Internally Generated Computer Software & Easements Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-07-intangibles-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-07-intangibles-policy.pdf)

[MMB Statewide Operating Policy 0106-08 Art and Historical Treasures Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-08-art-historical-treasures-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-08-art-historical-treasures-policy.pdf)

[MMB Statewide Operating Policy 0106-09 Equipment, Furniture, and Fixtures Reporting](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-09-equipment-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0106-09-equipment-policy.pdf)

[MMB Statewide Operating Policy 0501-01 Managing and Financial Reporting of Accounts Receivable](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0501-01-managing-reporting-ar-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0501-01-managing-reporting-ar-policy.pdf)

[MMB Statewide Operating Policy 0502-01 Managing and Reporting Loans Receivable](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0502-01-loans-receivable-policy.pdf)
(<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0502-01-loans-receivable-policy.pdf>)

[MMB Statewide Operating Policy 0111-01 Financial Reporting of Liabilities](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0111-01-financial-reporting-liabilities-policy.pdf) (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0111-01-financial-reporting-liabilities-policy.pdf>)

See also

[GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160029148)
(http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160029148)

[GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160029121)
(http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160029121)

[GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159988818)
(http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159988818)

[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)

[GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159971923)
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[GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position](http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159967447)
(http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176159967447)

[GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees](http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176162551665)
(http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176162551665)