

Minnesota Management & Budget Statewide Operating Policy

Minnesota Management & Budget, Financial Reporting
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Revised:

Financial Reporting of Accounts Receivable

Objective

To ensure year-end accounts receivable activity is complete and properly reported in the state's Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP).

Policy

All state agencies are responsible for tracking and reporting accounts receivable information on a quarterly basis, in accordance with MMB Statewide Operating Policy 0501-01 – *Managing & Reporting Accounts Receivable*. State agencies must report quarterly only those accounts receivable they have recognized and billed. However, some agencies have significant additional accounts receivable balances that meet the definition of accounts receivable according to Generally Accepted Accounting Principles (GAAP) but are unbilled as of June 30. This policy ensures that all material unbilled accounts receivable as of June 30 are reported to Minnesota Management and Budget (MMB) to be included in the state CAFR.

In addition to reporting billed accounts receivable on a quarterly basis, state agencies must provide supplementary accounts receivable information, if applicable, as of June 30. This additional information provides details on significant additional accounts receivable balances that meet the definition of accounts receivable according to GAAP, but are unbilled as of June 30.

GAAP also require accounts receivable amounts to be reported net of refunds and uncollectible accounts in the CAFR. As a result, agencies must periodically reassess the collectability of their accounts receivable based on current knowledge of accounts as well as actual history and trends and update their allowance for doubtful accounts estimates. An allowance for doubtful accounts estimate must be reported for each significant accounts receivable type. Agencies must also conduct an annual analysis of current activity and recent trends to determine the appropriate amount to be reported as the allowance for doubtful accounts as of June 30. Agencies should document and retain the analysis and justification of all allowance for doubtful accounts estimates.

Accounts receivable reported in accordance with GAAP include: 1) amounts billed as of year-end, 2) amounts due to the state arising from exchange or exchange-like transactions that occurred before June 30 but have not been billed as of year-end and, 3) amounts due to the state arising from non-exchange transactions. If actual amounts are not known prior to financial reporting deadlines, the unbilled amounts should be reported as accounts receivable at year-end and the amount must be estimated using historical information and other supportable factors. Agencies who routinely bill for goods or services not yet received (advance billings) should contact Minnesota Management & Budget (MMB) Financial Reporting for additional reporting instructions.

Supplementary accounts receivable at June 30 should be reported based on the following accounts receivable recognition principles:

For exchange and exchange-like transactions, the receivable amount is recognized when the exchange actually occurs. In most cases, the customer will be billed within a relatively short time period after the exchange occurs. Receivable amounts should include all amounts due for exchanges that occurred before the end of the fiscal year. For example, billings that are processed in July, or later, for exchange transactions that occurred on or before June 30 must be included in the accounts receivable amount reported to MMB. If the billing has not been processed by the time the annual accounts receivable report is prepared, the agency shall estimate the amount of the unbilled transactions and enter that amount on the supplementary June 30 worksheet columns.

The accounts receivable recognition criteria for non-exchange transactions vary by the type of transaction as follows:

- Derived tax revenues: When underlying exchange occurs.
- Imposed non-exchange revenues: When an enforceable legal claim* arises.
- Government-mandated non-exchange transactions: When eligibility requirements** are met.
- Voluntary non-exchange transactions: When eligibility requirements** are met.

* Enforceable legal claim is generally established in legislation as an assessment or lien date as it relates to property taxes or the date when a judgment is rendered. The enforceable legal claim may also be stated in legislation as the date when the use of resources is permitted or the resources are required to be used.

** Eligibility requirements may include time requirements (period when the resources are required to be used or first permitted to be used), reimbursements (recipient has incurred allowable costs. If not yet reported, amounts must be estimated if material), and contingencies (receipt is contingent on a specific action such as matching funds and the action has occurred). A purpose restriction is not normally an eligibility requirement but a limit on how resources may be used once the resources have been received. However, spending requirements associated with expenditure-driven reimbursement grants are considered eligibility requirements.

Interagency and intra-agency receivables should be separately identified. Interagency receivables are those created by one state agency billing another state agency for goods and/or services provided. Intra-agency receivables are those created by billing different divisions or programs within the same state agency. Interagency and intra-agency receivables are eliminated from the government-wide financial statements in the CAFR.

Accounts receivable between state agencies and the state's component units should be considered and reported as accounts receivable from external parties, not as interagency receivables. Component units include Housing Finance Agency, Metropolitan Council, University of Minnesota, Agricultural and Economic Development Board, National Sports Center Foundation, Office of Higher Education, Public Facilities Authority, Rural Finance Authority, and Workers' Compensation Assigned Risk Plan. Include any definitions only if needed.

Definitions

Receivable Recognition: The Government Accounting Standards Board (GASB) sets the criteria for determining which activity should be recognized and reported as accounts receivable on the state's CAFR in accordance with generally accepted accounting principles (GAAP). These criteria are not based on the timing of when billings are sent or collections occur. Agencies should use the guidance and information in this policy and the related procedure to determine whether significant unbilled accounts receivable exist as of June 30 so that all accounts receivable can be properly recorded in the CAFR. Note: Not all agencies have these additional accounts receivable as of June 30.

The GASB defines accounts receivable as arising from three different transaction types: exchange transactions, exchange-like transactions, and non-exchange transactions.

Exchange transaction: Transaction in which each party receives and gives up essentially equal values. For accounts receivable, the primary government has provided goods and/or services to another party and will receive funds in return or exchange. Examples include education and other services provided to students in exchange for students paying tuition and fees, health care services provided to individuals which will be billed to the individual or other responsible party, and goods sold to other governments or entities which require the entity to pay the state.

Exchange-like transaction: Transaction in which there is an identifiable exchange between the state and another party, but the values exchanged may not be equal or the direct benefits of the transaction may not be exclusively for the parties involved in the transaction. Examples include certain grants (where services are being provided), professional licenses and permits, and regulatory fees and charges.

Non-exchange transaction: Transaction in which a government either gives value to another party without directly receiving equal value in exchange, or receives value from another party without directly giving equal value in exchange. There are four types of non-exchange transactions as follows:

1. **Derived tax revenues:** Assessments imposed on exchange transactions. Examples include income tax, sales tax, and health care provider surcharges which are based on the earning of wages, the completion of sales, or the provision of services, respectively. The exchange transaction is the payment of wages to employees for services provided, whereas the payment of income taxes to the state without the state providing a direct service is the non-exchange transaction.
2. **Imposed non-exchange revenues:** Assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions. Examples include property taxes, most fines and forfeitures, and claims and judgments.
3. **Government-mandated non-exchange transactions:** A government at one level provides resources to a government at another level and requires the receiving government to use the resources for a specific purpose or purposes established in the provider's enabling legislation. An example is a Federal program that the state government is mandated to perform or a state government program that local governments are mandated to perform.
4. **Voluntary non-exchange transactions:** Legislative or contractual agreements, other than exchanges or exchange-like transactions, entered into willingly by the parties to the agreement. Examples are certain grants and entitlements and most donations.

Procedures

MMB Statewide Operating Procedure 0104-03.1 (<http://www.beta.mmb.state.mn.us/doc/statewide-financial/ch1/0104-03-01.pdf>) *Financial Reporting of Accounts Receivable*

See Also

MMB Statewide Operating Policy 0501-01 (<http://www.mmb.state.mn.us/doc/statewide-financial/ch5/0501-01.pdf>) *Managing and Reporting Accounts Receivable*

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*