



Agency Policies and Procedures

Issue Date: February 24, 2000

Policy Number: FMR-5A-01

Revised Date:

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Financial Statement Process for Proprietary Funds

Policy Objectives:

Agency policies and procedures for the financial statement process for proprietary funds are designed to:

- Establish a uniform approach for the timely preparation and presentation of financial statements in accordance with generally accepted accounting principles (GAAP),
- Provide public accountability, and
- Present fairly and with full disclosure the activities of the proprietary fund in conformity with Governmental Accounting Standards Board (GASB).

Background Information:

Proprietary funds consist of enterprise funds and internal service funds.

Enterprise funds account for operations that are financed and operated in a manner similar to private businesses. The costs of providing goods or services to the general public are recovered through the user charges; or the state has decided that the determination of net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal service funds account for the financing of goods and services provided by one state agency to other state agencies on a *cost-reimbursement basis*.

Financial statements reflect a fair presentation of the financial position and results of operations of an entity in conformity with GAAP. The basic financial statements include a balance sheet, an operating statement, a budget comparison statement, a statement of changes in financial position, and footnotes. The balance sheet discloses the assets, liabilities, and equity of an entity at a specified date. The operating statement discloses the financial results of operations for an entity during an accounting period. The budget comparison statement presents comparisons between approved budgetary amounts (as amended) and actual results of operations on the budgetary basis. The statement of changes in financial positions summarizes all important aspects of a government's financing and investing activities, regardless of whether cash or other elements of working capital are directly affected. The footnotes disclose information required for a fair presentation of the financial statement.

Required supplementary information will be attached to disclose additional information if required. Statements providing additional financial information for the users of the financial statement will be included as agreed between the divisions and the Financial Management and Reporting (FMR) Division.

Authority:

- **Governmental Accounting Standards Board (GASB) Statements and Interpretations** provide guidance for accounting and financial reporting for state government.

- **Financial Accounting Standards Board (FASB) Statements, Interpretations, and Technical Bulletins** provide guidance for accounting and financial reporting for proprietary funds when allowed by GASB.
- **National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*** identifies basic objectives that must be accomplished if the overall goal of accounting and financial reporting is to be reached.

Business Risks:

- Noncompliance with these policy provisions will delay the preparation of financial statements or may lead to a *qualified or adverse audit opinion*.
- Improper recording of revenues and expenses may lead to misstatement of net earnings.
- Inaccurate financial information will affect business decisions.

Policies and Procedures:

1. Division Responsibilities

- A. Provide required information to the FMR Division as agreed.
- B. Verify data of preliminary financial statements issued by the FMR Division.
- C. Notify the FMR Division of any changes to preliminary financial statements in a timely manner.
- D. Communicate relevant information to the FMR Division pertaining to financial operations.

2. The FMR Division's Responsibilities (Interim Statements)

- A. Establish an accounting system to accurately record financial activities.
- B. Collect data for the appropriate period from:
 1. The divisions,
 2. The information access warehouse,
 3. Department of Minnesota Management and Budget (MMB) reports, and
 4. Internal record keeping.
- C. Record transactions in accordance with GAAP.
- D. Produce the trial balance.
- E. Review the trial balance:
 1. Verify with the division for accuracy on any questionable amounts,
 2. Process any changes to the trial balances, and
 3. Reconcile the cash balance to MMB A614 report *Summary Trial Balance by Fund*.
- F. Prepare preliminary financial statements and distribute to the divisions for verification.
- G. Submit financial statements to accounting director or designee for review.
- H. Upon approval by accounting director or designee, distribute unaudited financial statements to the appropriate Admin personnel. Copies of annual unaudited financial statement are distributed to the Office of Legislative Auditor (OLA) and MMB.
- I. Communicate relevant information to divisions pertaining to financial operations.

3. OLA Responsibilities

- A. Review and audit yearly financial information.
- B. Work with Admin staff to resolve questions.
- C. Prepare audit adjustments to financial statements and forwards to MMB.

4. MMB Responsibilities

- A. Review OLA recommended audit adjustments.
- B. Prepare audited financial statements.
- C. Submit audited financial statements to the FMR Division.

5. The FMR Division's Responsibilities (Annual Final Statements)

- A. Make appropriate adjustments to financial statements based upon MMB recommendations.
- B. Prepare and distribute audited financial statements to the appropriate Admin personnel.
- C. Process adjusting and closing entries in accounting system.

See Also:

Codification of Governmental Accounting and Financial Reporting Standards
Governmental Accounting, Auditing and Financial Reporting (GAAFR) also commonly referred to as the "Blue Book"

The GAAFR Review Guide to GASB Pronouncements

2000 Miller Governmental GAAP Guide for State and Local Governments

2000 Miller Governmental GAAP Guide Restatement and Analysis of Current FASB Standards

Refer to the [Glossary](#) for definitions of the key terms and acronyms listed below:

- adverse audit opinion
- blue book
- cost-reimbursement basis
- qualified audit opinion