



Minnesota Management & Budget Statewide Operating Policy

Minnesota Management and Budget, General Accounting
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Managing & Financial Reporting of Accounts Receivable

Objective

To ensure adequate controls over accounts receivable and related activities are established in both policy and practice and that accounts receivable are routinely reconciled in accordance with Minnesota Statutes and statewide policies to facilitate Minnesota Management & Budget's (MMB) responsibility for providing statewide oversight of accounts receivable and to ensure the year-end accounts receivable is complete and properly reported in the state's Comprehensive Annual Financial Report (CAFR) in accordance with Generally Accepted Accounting Principles (GAAP).

Statute	Statute Name
16A.055	Commissioner's Duties https://www.revisor.mn.gov/statutes/?id=16A.055
16A.057	Internal Controls and Internal Auditing https://www.revisor.mn.gov/statutes/?id=16A.057
16A.72	Income Credited to General Fund; Exceptions https://www.revisor.mn.gov/statutes/?id=16A.72
16B.57	Gasoline and Petroleum Product, Source of Supply for Agencies https://www.revisor.mn.gov/statutes/?id=16B.57
16D.03	Supervision of State Debt Collection https://www.revisor.mn.gov/statutes/?id=16D.03
85.22	State Parks Working Capital Account https://www.revisor.mn.gov/statutes/?id=85.22

Policy

All state agencies are responsible for tracking and reporting accounts receivable information on a quarterly basis, in accordance with Minnesota Statute 16D.03. All state agencies responsible for the billing and collection of debt owed to the state are required to use the Statewide Integrated Financial Tools (SWIFT) Accounts Receivable module unless granted an exception by MMB. State agencies must report quarterly only those accounts receivable they have recognized and billed.

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. This policy ensures that all material unbilled accounts receivable as of June 30 are reported to MMB to be included in the state CAFR.

GAAP also requires 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 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 use of the resources are required or first permitted.
- Government-mandated non-exchange transactions: When eligibility requirements* are met.
- Voluntary non-exchange transactions: When eligibility requirements* are met.

* **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, Workers' Compensation Assigned Risk Plan, and Minnesota Sports Facilities Authority.

Accounts Receivable Sub-Systems

Exceptions to using the SWIFT Accounts Receivable module will only be granted in cases where the agency is able to provide sufficient evidence showing the SWIFT Accounts Receivable module is unable to meet the specific requirements of the receivable activity and the costs of modifications to the module exceed the benefit.

Internal Controls

Agencies with accounts receivable activity must establish internal policies and procedures commensurate with the level of risk attributable to each type of receivable account. Each agency must establish in policy and practice adequate controls to address their specific and particular circumstances. Management must be mindful of errors or irregularities in receivable accounts should any exist. Internal policies should also include performance measures and unusual variances in the measures and activities should be investigated and appropriate steps should be taken to address issues or concerns identified.

Accountability and separation of duties are an integral part of internal controls. Adequate accountability and separation of duties must be established in policy and practice to safeguard the billing and collection of debt owed to the state. See MMB Statewide Operating Policy 0102-01 Internal Controls.

Each agency with accounts receivable activity must establish and maintain internal policies and procedures for managing all accounts receivable related activities including, but not limited to the following:

- Establishing new customers in SWIFT;
- Establishing new accounts receivable in SWIFT in a timely manner;
- Clearly identifying where and how customer data will be stored to ensure adequate security measures are established and adhered to in order to safeguard private data;
- Developing a clear and appropriate collection process, including referring debt greater than 120 days past due to the Department of Revenue;
- Establishing a process for routinely reviewing delinquent accounts to ensure sufficient and consistent collection efforts have been attempted;
- Establishing a process for routine analysis of the collectability of seriously delinquent accounts and provide uniformity to the approval process to write off an account;
- Establishing a process for periodically determining the allowance for doubtful accounts estimates;
- Establishing a process for quarterly and year-end accounts receivable reporting;
- Establishing a process for calculating accounts receivable estimates for year-end reporting, if applicable
- Establishing a process to identify and write off uncollectible debts, including maintaining documentation on justification for the write off ensuring compliance with 16D.09;and
- Preparing performance measures to investigate and address issues or concerns identified.

All accounts must be formally reconciled by receivable type and receivable system at least once each calendar quarter. Receipts collected for outstanding receivables must be processed in accordance with MMB Statewide Operating Policy 0602-03 Recording & Depositing Receipts. All receipts must be safely secured and accounted for from the time received until deposited at the bank.

Charging Interest

A state agency shall charge simple interest on debts owed to the state if notice of the past due account has been sent according to the schedule above, with no response from the customer. Please refer to MMB Statewide Operating Policy 0504-01 - Debt Collection Process and Actions for additional information on charging interest.

Income Credited to General Fund; Exceptions

In accordance with Minnesota Statutes 16A.72, 16B.57, and 85.22, all income, including fees, interest or receipts of any nature, shall be credited to the general fund, unless otherwise provided in law. Specific exceptions per the statute include the following:

- Federal aid;
- Contributions, or reimbursements received for any account of any division or department for which an appropriation is made by law;
- Income to the University of Minnesota;
- Income to revolving funds now established in institutions under the control of the commissioners of Corrections or Human Services;
- Investment earnings resulting from the master lease program, except that the amount credited to another fund or account may not exceed the amount of the additional expense incurred by that fund or account through participation in the master lease program;
- Investment earnings resulting from any gift, donation, devise, endowment, trust, or court ordered or approved escrow account or trust fund, which should be credited to the fund or account and appropriated for the purpose for which it was received;
- Receipts from the operation of patients' and inmates' stores and patients' vending machines, which shall be deposited in the social welfare fund, or in the case of prison industries in the correctional revolving fund, in each institution for the benefit of the patients and inmates;
- Income to prison industries which shall be credited to the correctional industries revolving fund;
- Money paid by one state agency to another to compensate for the cost of gasoline or petroleum products is annually appropriated to the state agency which furnishes those products;
- All receipts derived from the rental or sale of state park items, tours at Forestville Mystery Cave State Park, and operation of Douglas Lodge shall be deposited in the state treasury and be credited to the state parks working capital account;
- Income to the Minnesota Historical Society;
- The percent of income collected by a private collection agency and retained by the collection agency as its collection fee; or
- As otherwise provided by law.

Establishing and Billing a Receivable

Agencies are responsible to establish, maintain and track collection of accounts receivable in SWIFT. Billing workflow is set at the business-unit level. Pay terms in SWIFT are defaulted to 30 days. Agencies must be aware of the default terms in SWIFT and override them if the defaults are not appropriate to their activities.

The state should not invoice a customer if the cost to process the related receivable and cash receipt transactions exceeds the amount of the invoice, unless required by law. The minimum amount on an invoice should be \$5. Amounts less than \$5 may be accumulated for future invoices.

Establishing an Intra/Inter-Agency Receivable

Agencies may provide goods and services to each other within the State of Minnesota. An inter-agency bill is provided to the consumer agency similarly to those for outside customers. However, accounting entries must be made to reflect balanced activity for both business units involved. The Accounts Payable module must equal the Accounts Receivable module (bilateral netting).

Establishing a Recurring Receivable

Agencies should notify customers prior to the due date of a payment that has to be made on a regular basis. Use the Recurring Bill feature in the SWIFT AR module for recurring receivables. Examples of recurring bills include rental payments, and license fees.

Establishing Installment Bills

Agencies will use the installment bill schedule in SWIFT for bills that are based on a billing cycle (monthly, quarterly) to divide the total amount equally, by percentage, or by a specified breakdown.

Establishing and Maintaining Customer Information

Agencies are responsible for the entry and maintenance of their customer records in SWIFT. SWIFT has the ability to track conversations, references, and tabs. Usage of these features is not mandatory. Each agency may establish their own policies regarding these features. Customer information is stored in SWIFT.

Accounts Receivable Reporting Requirements

All state agencies with accounts receivable activity must complete and submit quarterly and fiscal year-end reports to MMB in the layout established by MMB no later than the designated due date. There are additional fiscal year end reporting requirements for accounts receivable as of June 30.

Agencies that prepare their own financial statements for inclusion in the state's CAFR must ensure that the accounts receivable reported in the financial statements match the year-end accounts receivable report submitted to MMB.

Agencies with No Accounts Receivable Activity

Agencies that do not have accounts receivables must submit an Annual Certification Form certifying that:

- They had no accounts receivables during the current fiscal year, and
- They do not anticipate accounts receivables during the upcoming fiscal year.

Agencies must begin reporting accounts receivables if operating conditions change.

Definitions

Receivable Recognition

The Government Accounting Standards Board (GASB) sets the criteria for determining which activity should be recognized and reported as accounts receivable in the state's CAFR in accordance with 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.

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.

Related Policies and Procedures

[MMB Statewide Operating Procedure 0501-01.1 Managing and Reporting of Accounts Receivable](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0501-01-01-managing-reporting-ar-procedure.pdf) (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0501-01-01-managing-reporting-ar-procedure.pdf>)

[MMB Statewide Operating Policy 0102-01 Internal Control](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-internal-control-policy.pdf) (<http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-internal-control-policy.pdf>)

[MMB Statewide Operating Policy 0504-01 Debt Collection Process and Actions](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0504-01-debt-collection-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0504-01-debt-collection-policy.pdf)

[MMB Statewide Operating Procedure 0504-01.1 - Debt Collection Process and Actions](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0504-01-01-debt-collection-procedure.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-5/0504-01-01-debt-collection-procedure.pdf)

[MMB Statewide Operating Policy 0602-01 Recording & Depositing Receipts](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-6/0602-01-recording-depositing-receipts-policy.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-6/0602-01-recording-depositing-receipts-policy.pdf)

[MMB Statewide Operating Procedure 0602-01.1 Daily Deposit Waiver](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-6/0602-01-01-daily-deposit-waiver-procedure.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-6/0602-01-01-daily-deposit-waiver-procedure.pdf)

See also

[Accounts Receivable Reference Guides](https://mn.gov/mmb/accounting/swift/training-support/reference-guides/accounts-receivable.jsp) (https://mn.gov/mmb/accounting/swift/training-support/reference-guides/accounts-receivable.jsp)

[Inter/Intra Agency Reference Guides](https://mn.gov/mmb/accounting/swift/training-support/reference-guides/interagency.jsp) (https://mn.gov/mmb/accounting/swift/training-support/reference-guides/interagency.jsp)

[GASB Statement No. 33, Accounting and Financial Reporting for Non-Exchange 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)