



Montana Operations Manual

Policy

Category

Accounting

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Department of Administration
State Financial Services Division

302 Governmental Accounting Overview

I. Purpose

~~The following is a general description of g~~Governmental accounting as it applies to all governmental state agencies and component units.

II. Scope

This policy applies to all state agencies ~~and institutions~~ and component units, excluding community colleges.

III. Outline

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III.IV. Policy – ~~302 Government Accounting Overview~~

The governmental environment differs markedly from that of business enterprises. Governmental accounting systems, reports, and the information they provide will differ accordingly. Thus, a set of generally accepted accounting principles (GAAP) applicable to governmental accounting and reporting has been developed for use by governmental units/entities. These accounting principles are designed to enhance

fiscal control and finance, meet related legal and contractual requirements and result in financial statements and reports that fulfill many user information needs. GAAP provide uniform minimum standards and guidelines for financial accounting and reporting. GAAP encompass the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures.

The primary authoritative source on the application of GAAP to ~~state government~~ sal entities is the Governmental Accounting Standards Board (GASB). The basic principles in this policy are explained in detail in the “Codification of Governmental Accounting and Financial Reporting Standards” and the “Original Pronouncements” published by the GASB. ~~In GASB Statement No. 1, GASB~~ sets forth the authoritative status of the Statements and Interpretations promulgated by the National Council on Governmental Accounting (NCGA) and the accounting and financial reporting guidelines contained in the Industry Audit Guide, “Audits of State and Local Governmental Units” (revised edition), issued by the American Institute of Certified Public Accountants. The GASB pronouncements remain in force until altered, amended, supplemented, revoked or superseded by subsequent pronouncements. ~~Sections that are no longer in force are shaded in grey in the current version of the Original Pronouncements~~ GASB guidance can be found at www.gasb.org.

The policies in the Montana Operations Manual (MOM) assist agencies in the application of these principles to their own operations and the Statewide Accounting Budgeting and Human Resource System (SABHRS).

IV.V. **State Accounting pPolicies (Modified August 2009)**

State agencies ~~and component units s, including units of the university system,~~ shall record all financial activity in accordance with GAAP by fiscal year-end in SABHRS, as required by Section 17-1-102(2), MCA, unless specifically required to do otherwise by Sstate law. Conflicts between law and GAAP are addressed in another section of this policy. Where specific legal conflicts exist with GAAP, agencies must follow the accounting procedures required by the specific law.

As required by Section 17-2-110, MCA, ~~the State's fiscal year commences on July 1 of each year and ends on June 30 of each year, except for the Montana State Fund provided for in Section 39-71-23 MCA, the fiscal year for State purposes commences on July 1 of each year and ends on June 30 of each year. Montana State Fund's fiscal year starts on January 1 of each year and ends on December 31 of that same year.~~

—To assure the State's compliance with GAAP and to clarify the application of GAAP when necessary, ~~DefA-DOA State Accounting Bureau (SAB)~~ Accounting Bureau establishes uniform accounting and reporting policies for all state agencies, as authorized by Section 17-1-102 MCA. This ~~will be~~ is accomplished primarily through updates to ~~Montana Operations Manual (MOM)~~ policies. ~~Management memos may also be used for this purpose to provide specifics that are more~~

~~efficiently defined outside of the MOM policies.~~ In the absence of state law and policy, the hierarchy of GAAP set forth in GASB Statement No. 5576 should be followed. This hierarchy is as follows:

- ~~• Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements and Interpretations.~~ GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.
- ~~•~~
- GASB Technical Bulletins
- ~~• and American Institute of Certified Public Accountants (AICPA) literature such as Industry Audit and Accounting Guides and Statements of Position (if they specifically apply to state and local governments and have been cleared by GASB);~~
- ~~• GASB consensus positions and AICPA Practice Bulletins that are specific to government and cleared by GASB;~~
- ~~• GASB Implementation Guides (Q&As), as well as practices that are widely recognized and prevalent in state and local government.~~
- ~~• Other accounting literature including concept statements, articles and textbooks.~~ • Literature of the AICPA cleared by the GASB made applicable to state and local governmental entities

V.VI. **GAAP and Legal eCompliance**

SABHRS has been designed to make it possible both to:

- Present fairly and with full disclosure the financial position and results of operations of the funds of the State in conformity with GAAP;
- Determine and demonstrate compliance with finance related legal and contractual provisions.

An important aspect of GAAP, as applied to governments, is the recognition of the variety of legal and contractual considerations typical of the government environment. These considerations underline and are reflected in the fund structure, basis of accounting and other principles and methods and are a major factor in distinguishing governmental accounting from commercial accounting. Governmental accounting systems SABHRS has been designed in conformity with these principles and can readily satisfy most management control and accountability information needs with respect to both GAAP and legal compliance reporting.

If legal requirements dictate a basis other than GAAP, agencies must:

- Maintain the accounts and prepare budgetary reports on the legally prescribed budgetary basis required to determine and to demonstrate legal compliance.
- Maintain sufficient supplemental records to permit presentation of financial statements in conformity with GAAP.

- Notify ~~DefA-SABAccounting-Bureau~~ of the conflict and provide the necessary financial statement adjustment(s) for the Comprehensive Annual Financial Report (CAFR).
- Work with the Legislature, Budget Office/Office of Budget and Program Planning (OBPP), DOA and any other affected legal entity in an effort to change the law to conform to GAAP.

Montana's ~~Comprehensive Annual Financial Report (CAFR)~~ will be prepared in conformity with GAAP (refer to the related CAFR section in this policy).

VI.VII. Fund ~~a~~Accounting

The diverse nature of governmental operations and the necessity of assuring legal compliance precludes recording and summarizing all governmental financial transactions and balances in a single accounting entity. Unlike a private business, which is accounted for as a single entity, a governmental unit-entity is accounted for through several separate funds, each accounting for designated assets, liabilities and equity or other balances. Thus, from an accounting and financial management viewpoint, a governmental unit-entity is a combination of several distinctly different fiscal funds, each having a separate set of accounts and functioning independently.

SABHRS is organized and operated on a fund (accounting entity) basis. A fund or accounting entity is defined as an independent fiscal entity with a self-balancing set of accounts provided to record assets and other resources, together with all related liabilities, obligations, reserves and equities and changes therein. These funds are segregated for the purpose of carrying on-out specific governmental activities or attaining certain objectives in accordance with regulations, restrictions or limitations.

For financial reporting purposes, SABHRS funds with similar characteristics are combined into CAFR ~~funds. CAFR funds are then combined and aggregated for reporting purposes (refer to the related section in this policy for an explanation of the State of Montana's fund structure).~~reporting columns.

A. Basis for ~~F~~fund ~~e~~Establishment

Funds may be created pursuant to constitutional provisions or statutes enacted by the Legislative Branch. Funds may also be created by state agencies to achieve sound and expeditious financial administration and reporting or to comply with grant or contract accounting and financial reporting requirements or both. Only the minimum number of funds, consistent with legal and operating requirements, should be established. Fund classifications are defined in GASB Statement No. 54, and Section 17-2-102, MCA.

B. Fund ~~r~~Review

~~1. SABHRS Query MTGL_FUND_BY_RESP_BU can be used to perform an annual fund review.~~

2.1. The Administering Agency is referred to as the Responsible Business Unit in SABHRS. The Responsible Business Unit is responsible for reviewing the

funds they administer and determining if any of their funds should be inactivated. If the Responsible Business Unit requests an inactivation of a fund for which they are the Administering Agency, all ledger trial balances must have a zero balance and all capital assets still in-service must be transferred to another fund (refer to MOM policy 335 and 345 for further guidance related to capital asset and fund equity residual transfers). Inactivating a fund can only be requested by the Administering Agency that initially established the fund. To request the inactivation of a fund, Form 121 Fund Code -should be completed and sent to ~~the~~ the State Financial Services Division~~SAB~~ for approval.

2. The Responsible Business Unit is also responsible for reviewing sub-agencies that have access to each of the funds for which they are the Administering Agency on an annual basis. The query listed ~~above~~ below may also be used for this review. Any sub-agencies that should no longer have access to a specific fund should be removed by completing a Form 121 Fund Code and sending it to the ~~State Financial Services Division~~SAB for approval. Only the Administering Agency can request the inactivation of a sub-agency.
3. SABHRS Query MTGL FUND BY RESP BU can be used to perform an annual fund review.
4. Each agency is responsible for ensuring the respective funds of the agency are closing to the proper fund equity classification. Prior to fiscal year-end SAB staff will send a report indicating which fund balance classification each fund is assigned to close to during the fiscal year-end closing process. Agencies are responsible for reviewing and verifying the information on this report prior to fiscal year-end close. If a change needs to be made to a fund's fund balance classification, any balances existing in incorrect fund balance classifications must be moved into the correct fund balance classification via SABHRS GL module journal entry. A Fund Equity Transactions form must be completed and submitted to SAB for processing. Refer to MOM Policy 311 – Fund Equity for more information related to fund equity classifications.

~~7.~~

D.C. Fund Structure

In many cases, the funds on SABHRS are combined for reporting purposes in the CAFR. The State of Montana uses the following fund structure on SABHRS:

Fund range	Fund	Fund type
01000-01999	General fund	Governmental
02000-02999	State special revenue (budgeted)	Governmental

Fund range	Fund	Fund type
03000-03999	Federal special revenue	Governmental
04000-04999	Debt service	Governmental
05000-05999	Capital projects	Governmental
06000-06499	Enterprise	Proprietary
06500-06599	Internal service	Proprietary
07000-07999	Agency	Fiduciary
08000-08499	State special revenue (non-budgeted)	Governmental
08500-08599	Investment trust	Fiduciary
08600-08699	Private-purpose trust	Fiduciary
09000-09499	Permanent funds	Governmental
09500-09599	Pension and other employee benefit trust	Fiduciary

1. Governmental funds

General Fund (01100): Used ~~To~~ account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Used to account for the proceeds of specific revenue sources restricted to expenditure for specified purposes other than major capital projects.

- State Special Revenue Fund (02000 – 02999 and 08000 – 08499): The state special revenue funds reported in the 08XXX series are limited to non-budgeted activities and other private purpose donations restricted for a specific purpose that supports state programs. ~~such as those previously reported as expendable trust funds and other private purpose donations restricted for a specific purpose that supports State programs.~~ Only one state special revenue fund exists in state law and is reported in the State's CAFR. All of the state special revenue funds on SABHRS are sub-funds of the state special revenue fund.
- Federal Special Revenue Fund (03000 – 03999): Used to account for all activities funded from federal revenue sources. As with the state special revenue fund, only one federal special revenue fund exists in state law and is reported in the State's CAFR.

Debt Service Funds (04000 – 04999): Used to account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds (05000 – 05999): ~~Used~~ To account for resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary or trust funds.

Permanent Funds (09000 to 09499): ~~Used~~ To account for resources that are permanently restricted to the extent that only earnings, not principal, may be used for the purposes of supporting the government's programs.

2. Proprietary funds

Enterprise Funds (06000 – 06499): This fund type ~~must~~ should be used to account for operations if any one of the following criteria is met:

- Financed and operated ~~s~~ similar to private business enterprises, where the intent of the legislature is to finance or recover all costs primarily through user charges
- Where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate
- Where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity
- When laws or regulations require that the activities' costs of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues.

The primary focus of fee revenues charged by enterprise funds ~~is~~ should come from users outside of the primary government. For enterprise fund determination, activity with component units is considered outside the primary government. Enterprise funds may be used for any activity that is primarily funded by a fee charged to entities or users outside the State.

Internal Service Funds (06500 – 06599): To account for the financing of goods and services provided by one department or agency to other departments, agencies, or other governmental entities on a cost-reimbursement basis. Internal service funds should only be used when the primary government is the predominant recipient of the goods or services provided by the fund.

3. Fiduciary funds

Fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, or other governments. These assets cannot be used to support the government's own programs. These include:

- Agency Funds (07000 – 07999): ~~To~~ Used to account for activity when the State's role is purely custodial such as the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations

or other governments. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end.

- Investment Trust Funds (08500 – 08599): Used To account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants.
- Private Purpose Trust Funds (08600 – 08699): Used To report any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments.
- Pension and Other Employee Benefit Trust Funds (09500 – 09599): These funds should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit and contribution pension plans, other post-employment benefit plans or other employee benefit plans.

E.D. Higher education Montana University System (MUS university) Funds

The State's university system component units have chosen, for financial reporting purposes, to issue financial statements in the enterprise fund format. As a result, all of the higher education funds for each system are rolled together for CAFR purposes. ~~Q~~In SABHRS and the related BANNER subsystem, the ~~university system~~MUS still uses the higher education funds previously required under GAAP. These funds are no longer required by GAAP but are used by the ~~university system~~MUS for management and internal reporting purposes. The ~~college and university~~MUS fund structure used ~~in~~on SABHRS is as follows:

1. Current funds unrestricted

General Operating (31XXX): This subfund includes the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the Legislature.

Designated (33XXX): This subfund includes financial resources associated with general operations but are separately classified in order to accumulate costs that are to be recharged to other funds. It also identifies educational departments' special activities that are fully supported by supplemental assessments and identifies special supply and facility fees that are approved for collections beyond normal course fees and their disposition.

Auxiliary (34XXX): This subfund includes those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee, which is directly related to but does not necessarily equal the cost of the service provided, is charged the consumer.

2. Current funds restricted

Restricted (32XXX): This subfund includes the portion of financial resources that can be expended for general operations but only for purposes imposed by sources external to the Board of Regents (universities), Office of Public Instruction and the Legislature.

3. Fiduciary funds

Student Loans (4XXXX): Accounts for monies which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education system.

Endowments (5XXXX): Accounts for monies where the principal is available for investment. Investment earnings are to be transferred to appropriate operating funds pursuant to prevailing administrative requirements.

Agency (8XXXX): Accounts for monies where the higher education unit acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

4. Plant funds

Unexpended (71XXX): Accounts for unexpended resources derived from various sources to finance the acquisition of plant assets and the associated liabilities. Includes construction work-in-progress on debt or equity financed projects until completion. Then, the asset(s) and any associated liabilities are transferred to the Investment in Plant Subfund (74XXX).

Renewal and Replacement (72XXX): Accounts for resources provided for the renewal and replacement of plant fund assets as distinguished from additions and improvements. This subfund may include construction work-in-progress on debt or equity financed projects until completion. Then the asset(s) and any associated liabilities are transferred to the Investment in Plant Subfund (74XXX).

Retirement of Indebtedness (73XXX): Accumulates resources for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant (74XXX): Includes all fixed and long lived assets in the service of the higher education units as well as all associated liabilities. Includes construction work-in-progress for projects whose funding was appropriated to the ~~Department of Administration~~ DOA, Architecture & Engineering Division.

~~VII.~~ VIII. Measurement ~~f~~Focus and ~~b~~Basis of ~~a~~Accounting

The table below summarizes the measurement focus and basis of accounting that should be applied to transactions recorded in the ~~A~~Actuals ~~I~~Ledger in SABHRS.

Non-governmental funds use only one measurement focus and basis of accounting, and record all transactions in the Actuals Ledger in SABHRS. Governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting for transactions recorded in the Actuals Ledger. State agencies are required to convert governmental funds to the economic resources measurement focus and the full accrual basis of accounting via-by recording adjustments posted to the eEntitywide Ledger in SABHRS.

Fund range	Fund	Measurement focus	Basis of accounting
01000-01999	General fund	Current financial resources	Modified accrual
02000-02999	State special revenue (budgeted)	Current financial resources	Modified accrual
03000-03999	Federal special revenue	Current financial resources	Modified accrual
04000-04999	Debt service	Current financial resources	Modified accrual
05000-05999	Capital projects	Current financial resources	Modified accrual
06000-06499	Enterprise	Economic resources	Full accrual
06500-06599	Internal service	Economic resources	Full accrual
07000-07999	Agency	Economic resources	Full accrual
08000-08499	State special revenue (non-budgeted)	Current financial resources	Modified accrual
08500-08599	Investment trust	Economic resources	Full accrual
08600-08699	Private-purpose trust	Economic resources	Full accrual
<u>09000-09499</u>	<u>Permanent funds</u>	<u>Current financial resources</u>	<u>Modified accrual</u>
09500-09599	Pension and other employee benefit trust	Economic resources	Full accrual

A. Measurement Focus

Measurement focus determines the types of transactions and events that are reported in a fund's operating statement. Governmental accounting uses two types of measurement focus.

- Economic resources measurement focus: This is the measurement focus used by business enterprises and not-for-profit organizations in the private sector.

- Under this measurement focus, the operating statement includes all transactions and events that increase or decrease net position, such as revenues, expenses, gains, and losses.
- Current financial resources measurement focus: This measurement focus is unique to accounting and financial reporting for state and local governments.
 - Under this measurement focus, the operating statement includes all transactions and events that affect the fund's current financial resources, even though they may have no effect on net position.

Following is a table highlighting some common transactions that are recognized differently depending on the measurement focus being used. The table also demonstrates the fact that the eventual net effect of either measurement focus on the operating statement is identical.

Transaction or event	Measurement focus	
	Current financial resources	Economic resources
Issuance of long-term debt	+ \$20,000	No effect
Capital asset purchase	- \$20,000	No effect
Debt service principal payment	- \$20,000	No effect
Depreciation expense	No effect	- \$20,000
Ultimate net effect on the operating statement	- \$20,000	- \$20,000

B. Basis of Accounting

Basis of accounting refers to when revenues, expenditures, expenses, and transfers, and the related assets and liabilities are recognized ~~in the accounts~~ and reported ~~in~~ on the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus. The State of Montana uses the following two basis of accounting:

- Full accrual basis of accounting
 - Recognizes increases and decreases in economic resources as soon as the underlying transaction or event occurs. Using full accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as the related liability is incurred, regardless of the timing of related cash flows.
- Modified accrual basis of accounting

- o Recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash (60 days). Revenue is only recognized to the extent that it is available to finance expenditures of the current period. Certain expenditures are only recognized when payment is due because it is only at that time that they normally are liquidated with expendable available financial resources.

C. Fund ~~F~~financial ~~s~~Statements

In fund financial statements, the modified accrual or full accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

1. Governmental funds

Fund financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. When applying the current financial resources measurement focus, and the modified accrual basis of accounting to transactions, governmental funds should record the transactions in the ~~a~~Actuals ~~l~~Ledger in SABHRS.

For financial reporting purposes in the government-wide financial statements, all transactions in governmental funds must ~~be~~ also be accounted for using the economic resources measurement focus and the full accrual basis of accounting. Adjustments to convert governmental fund transactions to this basis must be completed in the ~~e~~Entitywide ~~l~~Ledger. The details of these adjustments are covered throughout MOM ~~Volume I~~Policy Category 300. When reporting governmental funds ~~in~~ on the government-wide financial statements in the State's CAFR, the balances in both the ~~a~~Actuals and ~~E~~Entitywide ~~l~~Ledgers ~~will be~~are combined.

2. Proprietary funds

Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the full accrual basis of accounting. Proprietary funds should record all accounting transactions in the ~~A~~Actuals ~~L~~Ledger in SABHRS. ~~Because As~~ proprietary funds are only presented using one measurement focus and one basis of accounting, transactions should never be recorded in the SABHRS ~~e~~Entitywide ~~l~~Ledger.

3. Fiduciary funds

Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the full accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans. Fiduciary funds

should record all accounting transactions in the ~~a~~Actuals ~~L~~edger ~~i~~n SABHRS. ~~Because~~ ~~As~~ fiduciary funds are only presented using one measurement focus and one basis of accounting, transactions should never be recorded in the SABHRS ~~E~~ntitywide ~~L~~edger.

D. Government-wide ~~f~~inancial ~~s~~tatements

The government-wide statement of net position and the statement of activities should be prepared using the economic resources measurement focus and the full accrual basis of accounting. Governmental funds are converted from the current financial resources measurement focus and the modified accrual basis of accounting by ~~posting~~ ~~recording~~ additional ~~entries~~ ~~transactions~~ in the SABHRS ~~e~~ntitywide ~~L~~edger. ~~See the governmental funds discussion above for more details.~~

IX. Classification and Terminology

Effective management control and accountability can best be achieved by utilizing a common language and uniform classification system in financial planning, management and reporting. To the maximum extent practicable, terminology and classifications should be consistently used in all phases of budgeting, accounting and reporting. It is especially important that:

- Primary government interfund transfers are classified separately from fund revenues and expenditures (expenses) as necessary. All interfund transactions occurring within the primary government, except loans or advances, interfund services provided and used and reimbursements, are transfers. See Mom Policy 345 - Interfund Activities, for further guidance on accounting for interfund transfers and transactions. Primary government payments to component units are included with fund revenues and expenditures (expenses).
- Proceeds of long-term debt issues are classified separately from revenues and expenditures. They should be reflected as "Other Financing Sources" in the operating statement of the recipient governmental fund.
- Governmental fund revenues are classified by fund and source. Expenditures should be classified by fund, function (or program), organizational unit, activity, account (character and principal classes of objects).
- Non-governmental fund revenues and expenses are classified in essentially the same manner as those of similar business organizations, functions or activities. Such classification is appropriate in view of the nature of these funds and facilitates comparison of their operating results with those of like organizations in both the public and private sector.
- In governmental fund accounting and reporting, use of the term "restricted" indicates that a portion of net position is legally restricted for an activity either by an outside party or the related enabling legislation (State Constitution).

~~IX.X.~~ **Internal controls** ~~Controls (updated May 5, 2008)~~

State agencies are responsible for implementing internal control procedures to ensure all transactions necessary for compliance with ~~generally accepted accounting principles~~ (GAAP) are recorded in SABHRS before fiscal year-end. In addition to the following procedures, agencies should develop appropriate internal control procedures based upon their business processes.

- Each agency is required to maintain and update a list of personnel authorized to sign or electronically approve SABHRS documents/transactions. For each authorized approver, this list should include the (1) individual's typed name; (2) individual's signature; (3) restrictions, if any; and (4) agency director's or designee's approval.
- A receiving report or invoice should be signed and dated for all goods received. Whenever possible, the receiving function should be performed by someone other than the individual initiating the purchase.
- The duties of (1) reviewing invoices for payment, (2) preparing invoices for payment by entering voucher requests into SABHRS, and (3) approving invoices for payment, should be performed by three different employees, whenever possible.
- Invoices should be signed when approved for payment. The approver should ensure that goods or services billed under the invoice were provided.
- The person either preparing or approving the voucher request should check the vendor payments made to date to verify that the claim was not previously paid. If a fraudulent or duplicate payment is found, every effort should be made to recover the funds, and the breakdown in controls that allowed the improper payment to take place should be identified and eliminated.
- Supervisory review of SABHRS organization/project reports, trial balance, and appropriation reports should occur monthly.
- Negative encumbrance balances, indicating possible duplicate payments, should be researched and resolved at least monthly. The resolution and who approved the resolution of any negative encumbrance should be documented. The review should be independent of the receiving, purchasing, and voucher approval functions.
- Queries, reports, or other tools that list accounts payable journals, accounts receivable journals, general ledger on-line and interunit journals should be reviewed to verify that all entries posted under your agency's business unit were approved and appropriate.
- ~~Specific fiscal year-end instructions are outlined in **Montana Operations Manual** MOM Policy 375, - Fiscal Year-end procedures, which will be distributed to each agency by DoFA Accounting Bureau. Agencies should ensure that any staff involved in the fiscal year-end closing process receives a copy of the policy.~~
- Each state agency should create a comprehensive checklist of items to be considered each fiscal year-end, similar to ~~the fiscal year-end procedures~~ MOM policy 375 – Fiscal Year-end, assigning specific responsibilities to appropriate staff.

State agencies must document their internal controls for major financial processes. Agencies must update their internal control documentation, to reflect current procedures, prior to each following fiscal year-end. ~~An internal control manual, and related appendixes are provided~~Internal control guidance is provided in MOM ~~Policy 399 – Internal Control Guidebook~~ of MOM Volume II. Agencies may ~~use the procedures contained~~follow the guidance outlined in MOM policy 399 – Internal Control Guidebook, as part of their ~~documentation control~~ process, ~~or choose to follow other guidance.~~

XI. The Budget and Budgetary Accounting

Budgeting is an essential element of the financial planning, control and evaluation process of the State. In compliance with Section 17-7-123, MCA, the Governor submits to the Legislature a balanced budget for each fiscal year of an ensuing biennium.

Upon adoption, the expenditure estimates in the annual budget, as modified by the Legislature, are enacted into law. Expenditures may not legally exceed Legislative appropriations (including any approved, authorized and valid budget amendments) at the program level. Appropriations may be continued into the next fiscal year when authorized by the Legislature via appropriations bills or state statutes.

Appropriations that are not continued are reverted after fiscal year-end. Reverted appropriations remain available for expenditures that exceed the amount accrued/encumbered.

State law requires budgets for the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds. Budgets may be established in other funds for administrative purposes.

The annual budget authorizes, and provides the basis of control over, financial operations during the fiscal year. Budgets are established in SABHRS to ensure effective budgetary control and accountability. For specific budgetary policy, refer to the budget preparation and execution instructions issued by the Office of Budget and Program Planning (OBPP).

A. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded as budgetary expenditures in order to reserve that portion of the applicable appropriation, is employed for budgetary control purposes. Encumbrances outstanding at fiscal year-end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute GAAP expenditures or liabilities of the current fiscal year. In the State's CAFR these outstanding encumbrances will be reported as reservations of fund balance for subsequent year expenditure. See MOM Policy 375 – Fiscal Year-end, for more detailed information on what constitutes a valid encumbrance contract.

B. Working Capital Used For Budgetary and Rate Purposes

For State budgetary and rate calculation purposes working capital is defined as the amount of cash that would remain if all of the current assets were converted, and all of the current liabilities paid, at their book value. As a result working capital is calculated by deducting total current liabilities from current assets. As the working capital used in the State budgetary process and OMB Circular A-87 focus on an allowable working capital balance of up to 60 days, material inventory balances and other current assets not readily convertible to cash will generally be excluded from this calculation.

Current assets are those assets which will be used up or converted to cash within one year. This differs from the 60 day availability concept used for revenue accrual purposes in governmental funds.

Current liabilities are those liabilities which are payable within one year. Although encumbrance accounting (the use of A-Accruals) is required under State statute, encumbrances do not represent a valid liability and should not be included in the working capital calculation.

An example of a working capital calculation follows:

<u>Current Assets</u>	<u>\$1,187,863</u>
<u>Cash in Bank</u>	<u>\$1,171,775</u>
<u>Due From Federal Gov</u>	<u>50</u>
<u>Merchandise Inventory (1)</u>	<u>16,038</u>
<u>Total Current Assets</u>	<u>\$1,187,863</u>
<u>Current Liabilities</u>	
<u>Loans Payable – Current</u>	<u>\$ 655,802</u>
<u>Due to Other BU or Funds</u>	<u>17,022</u>
<u>Vouchers Payable</u>	<u>396,578</u>
<u>FYE Payroll Payable</u>	<u>22,264</u>
<u>Accrued Liability</u>	<u>1,520</u>
<u>Comp Abs Current</u>	<u>23,096</u>
<u>Total Current Liabilities</u>	<u>\$1,116,282</u>

(1) As noted above material inventories are normally excluded. Because this inventory balance is not material it is included in the example provided.

Fund balance, or net position, cannot be equated to working capital in proprietary funds because this residual balance includes non-spendable assets (e.g. equipment) and long term liabilities (e.g. Other Post-Employment Benefits). Although the federal government may use an adjusted fund balance calculation in their working capital analysis, under OMB Circular A-87, the State will continue to use working capital, defined in this policy, as the basis for rate calculation in internal service funds. Based on information provided by the Federal Health and Human Services Division of Cost Allocation's Statewide Cost Allocation Plan Negotiator, fund balance, or working capital, used in indirect cost plan preparation may not include GAAP reported OPEB or pension expenses or their accrued liabilities. However, contributions made to the pension plans within the personal services category remain an allowable cost.

Though working capital does not apply to enterprise funds, OPEB and pension expense and related liabilities, outside of the personal services expenditure category, may not be included in their basis for rate calculation. While the State may be legally responsible for pension liabilities, no portion is classified as current.

The State finances their health benefit claims on a pay-as-you-go basis and do not advance-fund the actuarially determined OPEB or net pension liabilities. Thus, even though the difference between OPEB expense and the implied rate subsidy is classified as a liability on the financial statements, it does not represent a legal liability to the reporting entity. Additionally, in accordance with OMB Circular A-87, post-retirement health benefit costs calculated using an actuarial cost method recognized by GAAP are only allowable if they are funded for that year within six months after the end of that year. Since the State does not fully fund OPEB expense or net pension liabilities, these are unallowable costs to a Federal award.

XII. Comprehensive Annual Financial Report

A Comprehensive Annual Financial Report (CAFR) reporting all funds of the State of Montana including: introductory section; independent auditor's report; management's discussion and analysis; basic financial statements; required supplementary information; supplementary information with appropriate combined, combining and individual fund statements; schedules; narrative explanations; and statistical tables are prepared by the SAB.

The purpose of the State's financial statements is to report the financial position and results of operations for the primary government and all component units of the

State, reflecting consolidated operations comprising the reporting entity (State of Montana).

Each state agency may establish internal policies/procedures for reporting financial data to management and other interested parties. State agencies may be requested to prepare supplemental reports, schedules, etc., to assist SAB in preparing the State's CAFR, as permitted by Section 17-2-110(2), MCA.

~~Additional internal control guidance is provided on the State Financial Services Division Website.~~

B.XIII. Correction of Pprior yYear eErrors

If, after fiscal year-end, an agency becomes aware that a necessary transaction was not recorded in the prior year or that a transaction was recorded in error, the agency should immediately record a correcting entry in SABHRS. If the error is from one year prior, the transaction should be recorded directly to applicable revenue or expense/expenditure accounts using the prior year as the program year, using the prior year in the program field. Correction of an error from a previous period that occurred at least two fiscal years prior to the current fiscal year requires an entry directly to fund equity. These adjustments require the completion of a Fund Equity Transaction form and SAB approval. The agency must notify DefA Accounting Bureau of the correcting entry. If the correcting entry affects another agency, a copy of the document and/or adequate explanation of the error must be provided to the other agency so that appropriate correcting entries can be made. ~~DefA SABAccounting Bureau~~ will notify agencies of errors that are discovered during preparation of the State's ~~Comprehensive Annual Financial Report~~CAFRR. For more information see MOM Policy 311 – Fund Equity.

X.XIV. Capital Assets

~~Because of Due to~~ the distinctive nature of governmental financial operations and fund accounting requirements, non-governmental fund capital assets are accounted for in the respective fund ~~using in~~ the ~~a~~Actuals ~~I~~Ledger. Governmental fund capital assets are recorded in the respective fund ~~using in~~ the ~~e~~Entitywide ~~I~~Ledger.

In both non-governmental and governmental funds, capital assets do not represent financial resources available for expenditure, but are items for which financial resources have been used and for which accountability should be maintained. Even though the assets are recorded in specific funds they are not assets of any fund, but of the State as a whole.

A. Higher education unitsMontana University System (MUS) eCapital aAssets

Except for capital assets held as investments in endowment and similar funds and their associated liabilities, the Net Investment in Plant Fund includes all

capital assets, other long-lived assets and all construction work-in-progress (unless carried in the Unexpended Plant or Renewal and Replacement Funds) until completion of the project as well as all associated liabilities. As noted previously, MUS funds are only used for internal accounting and reporting purposes. These are not reported in the higher education externally issued financial statements or in the State's CAFR.

B. Valuation of ~~e~~Capital ~~a~~Assets

Capital assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost. Donated capital assets should be recorded at their ~~estimated fair value~~acquisition cost at the time received. The cost of a capital asset includes not only its purchase price or construction cost, but also ancillary charges (e.g., freight and transportation charges, site preparation, ~~professional and professional~~ fees, ~~etc.~~) necessary to place the asset in its intended location and condition for use. For complete instructions on determining estimated cost, see ~~Montana Operations Manual~~MOM Policy 335, ~~Capital Assets~~Accounting.

Governmental fund capital assets are depreciated in the Entitywide ~~I~~Ledger ~~i~~on SABHRS. Expenditures, not expenses, are measured in the ~~a~~Actuals ~~I~~Ledger for governmental funds. Under the modified accrual basis of accounting, depreciation expense is neither a source nor a use of governmental fund type financial resources, and thus is not recorded in the ~~A~~Actuals ~~I~~Ledger accounts of governmental funds.

In non-governmental funds, depreciation accounting is an important element of the income determination process. Accordingly, depreciation expense is recognized in the non-governmental, including ~~higher education~~MUS funds and recorded in the ~~a~~Actuals ~~I~~Ledger.

The State's capital assets are depreciated on a straight-line basis with various default estimated useful lives established ~~i~~on SABHRS. If agency experience or industry guidelines are indicative of a different useful life, agencies must change the SABHRS default useful life for the related asset to reflect the more accurate estimate. Refer to ~~Montana Operations Manual~~MOM Policy 335, ~~Capital Assets~~Accounting, for additional detail.

~~XI~~XV. ~~Capital Projects~~Accounting

This section establishes the ~~S~~state accounting policy and procedures for recording financial activities related to capital projects. Capital project funds account for the acquisition or construction of major capital facilities. The capital project fund is a governmental fund and accounted for using the modified accrual basis.

A. Major ~~e~~CCapital ~~f~~Facility

A major capital facility is defined as a permanent structure or group of structures that represent a facility with a total projected cost of \$500,000 or more acquired and /or constructed for state government. Such a facility can either help the government provide services to its citizens or serve the needs of citizens directly. A major facility may include buildings, and other permanent structures such as hatcheries, raceways, park shelters, and related additions and improvements. A major capital facility also includes information technology platforms, new information technology systems, and software development. A major capital facility does not include general government infrastructure or land acquisitions.

If a major capital facility has original projected costs of less than \$500,000, but the final costs exceed \$500,000, the facility would not qualify as a major capital facility.

B. Major ~~e~~CCapital ~~p~~Project

A major capital project is defined as the act of acquiring or constructing a major capital facility. A project is considered to include all aspects of acquisition and/or construction. In the event a project is funded by more than one fund, the project cost should include all of the funds' costs, and should not be based on individual appropriation amounts. For example, if a \$500,000 project is funded by two special revenue funds equally, the project cost to be used in determining whether to use a capital projects fund would be \$500,000, not \$250,000 for each fund.

C. ~~Non-higher education units~~Primary Government and Component Units Other Than MUS

1. Legally required

Capital projects funds must be used when they are legally mandated or required by regulations or covenants associated with the funding source(s), regardless of the cost of the project or the fund type used to finance the project. The additional requirements below presume there are no legal requirements to use a capital project fund.

2. Not legally required

In general, capital projects funds must be used to account for government resources restricted or designated to finance capital projects.

Capital project outlays related to major capital projects, financed entirely by a proprietary fund where the proprietary fund will record a capital asset (or construction work in progress), should be recorded ~~in~~by the proprietary fund. See the section X.C.5.

3. Split-funding between governmental and proprietary fund categories

In some cases, a major capital project may be funded from both governmental and proprietary fund categories. In these situations, the agency and/or ~~DefA-DOA~~ Architecture & Engineering (A&E) division must first determine which fund category (governmental or proprietary) will record a capital asset (or construction work in progress) related to the outlays. Split-funded capital assets must be recorded by only one fund category. State accounting policy does not permit split-funded capital assets to be recorded across multiple fund categories.

4. Split-funded capital asset recorded in a governmental fund category

If the capital asset is recorded in a governmental fund category, the proprietary fund records a transfer to the capital projects fund for its share of the funding. The capital outlay is then recorded in the capital project fund.

5. Split-funded capital asset recorded in a proprietary fund category

If the capital asset is recorded in a proprietary fund category, the governmental fund records a transfer to the proprietary fund for its share of the funding. The capital outlay is then recorded in the proprietary fund. If any part of the funding requires the use of a capital project fund (as discussed in the legally required section above), the capital outlays related to that part of the funding source must be recorded in a capital projects fund.

D. Accounting procedures for non-higher education units

1. Funding provided only by the Long Range Building Program or Long Range Information Technology Program

When a capital project is appropriated to the ~~DefA-DOA~~ A&E Division, and funded entirely by the Long Range Building Program (LRBP) or the Long Range Information Technology Program (LRITP), A&E must establish and administer the necessary funds in the capital projects fund type (05XXX) as required by ~~sState of Montana~~ statute, whether or not it is a major capital project as defined above.

2. Funding provided by either LRBP/LRITP and other agency sources

When a capital project is appropriated to A&E, and funded by either the LRBP or LRITP and another agency's revenue source, A&E must account for the LRBP or LRITP portion of the project in a capital projects fund. A&E must establish the necessary funds in the capital projects fund type (05XXX) for the other agency's portion of the project, and must follow the accounting procedures outlined below.

3. Funding provided by other agency sources only

When a major capital project is appropriated to A&E, and funded entirely from another agency's revenue source (most commonly state or federal special revenue funds), A&E must establish the necessary fund in the capital projects fund type (05XXX) for the other agency, and must follow the accounting procedures outlined below. A&E is responsible for ensuring the required cash is transferred to the capital projects fund from the appropriate revenue source. If an agency is unable to provide the cash needed to support the expenditures incurred by A&E, it is the agency's responsibility to obtain an interfund loan or advance.

E. Accounting Entries ~~for non-higher education units~~

A&E records the following accounting entries for transactions related to capital projects appropriated to A&E, and funded from another agency's revenue source. All entries are recorded in SABHRS using the A&E business unit.

<i>ToA&E records the transfer of cash for the construction expenditures from the agency revenue source fund to the capital project fund</i>		
<i>Recorded in the <u>A</u>actuals-<u>L</u>edger</i>		
<i>Debit</i>	<i>68107</i>	<i>Trans to cap project funds (CPF)</i>
<i>Credit</i>	<i>1104</i>	<i>Cash</i>
<i>To record transfer-in in the capital project fund</i>		
<i>Debit</i>	<i>1104</i>	<i>Cash</i>
<i>Credit</i>	<i>582857</i>	<i>Transfer<u>s</u> to CPF</i>

<i>A&E records an accounts payable voucher in the capital projects fund to pay the construction expenditures</i>		
<i>Recorded in the <u>A</u>actuals-<u>L</u>edger</i>		
<i>Debit</i>	<i>6XXXX</i>	<i>Appropriate expenditure account</i>
<i>Credit</i>	<i>1104</i>	<i>Cash</i>

F. Other Situations Circumstances

For all non-major capital projects appropriated to A&E, and funded from another agency's funding source, the agency is responsible for establishing the necessary funds within the funding source fund type with A&E as a sub-business agency of each fund.

When a capital project is appropriated to an agency other than A&E, a capital project fund must be used if the project meets the definition of a major capital project, and meets the criteria established in the “use of capital projects funds by non-higher education units” section above.

G. ~~Higher education units~~ Montana University System (MUS)

For ~~higher education unit capital~~ MUS capital projects appropriated to A&E, each ~~higher education unit~~ MUS unit must establish the necessary funds (within the ~~higher education~~ MUS fund structure) with A&E as a sub-~~business unit~~ agency. A&E shall establish the appropriation in that fund. It is the ~~higher education~~ MUS unit’s responsibility to ensure cash is available to support expenditures incurred by A&E. If the ~~unit~~ MUS unit is unable to provide the necessary cash, it is the unit’s responsibility to obtain an interfund loan or advance.

~~Accounting entry~~ *A&E records an accounts payable voucher in the higher education unit fund to pay the construction expenditures*

Recorded in the actuals ledger

<i>Debit</i>	<i>6XXXX</i>	<i>Appropriate expenditure account</i>
<i>Credit</i>	<i>1104</i>	<i>Cash</i>

H. ~~Agency r~~ Responsibilities – Agencies and Component Units, Including MUS

State A agencies and MUS are responsible for reviewing all outlays related to capital projects, whether recorded by A&E, agencies, or ~~higher education~~ component units; and recording capital assets or CWIP as necessary.

XII.XVI. Long-term L liabilities

Long-term liabilities not only include formal debt instruments (e.g., bonds, notes, etc.), but also long-term liabilities arising from, but not necessarily limited to, lease-purchase agreements, installment purchase contracts, judgments and claims (contingencies), unfunded pension obligations and accumulated unpaid vacation and sick leave amounts (compensated absences).

Because of the distinctive nature of governmental financial operations and fund accounting requirements, some long-term liabilities are accounted for in the ~~a~~ A Actuals Ledger while others are accounted for in the ~~e~~ Entitywide Ledger.

All long-term liabilities of governmental funds should be accounted for in the ~~e~~ Entitywide Ledger. Just as general capital assets do not represent financial resources available for appropriation and expenditure, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

Long-term liabilities directly related to and expected to be paid from non-governmental funds should be included in the accounts within the Actuals Ledger of such funds. These are specific fund liabilities, even though the full faith and credit of the State may be pledged as further assurance that the liability will be paid.

Long-term liabilities of ~~the higher education units~~ MUS will be accounted for in their Plant Funds (7XXXX) with the exception of their compensated absence liability that will be recorded in the Current Unrestricted Funds (31XXX, 33XXX or 34XXX).

Refer to ~~Montana Operations Manual~~ MOM Policy 340 – Long Term Liabilities, Debt, for additional information.

~~XIII. The Budget and budgetary accounting~~

~~Budgeting is an essential element of the financial planning, control and evaluation process of the State. In compliance with Section 17-7-123, MCA, the Governor submits to the Legislature a balanced budget for each fiscal year of an ensuing biennium.~~

~~Upon adoption, the expenditure estimates in the annual budget, as modified by the Legislature, are enacted into law. Expenditures may not legally exceed Legislative appropriations (including any approved, authorized and valid budget amendments) at the program level. Appropriations may be continued into the next fiscal year when authorized by the Legislature via appropriations bills or State Statutes.~~

~~Appropriations that are not continued are reverted after fiscal year end. Reverted appropriations remain available for expenditures that exceed the amount accrued/encumbered.~~

~~State law requires budgets for the General, Special Revenue, Capital Projects, Enterprise and Internal Service Funds. Budgets may be established in other funds for administrative purposes.~~

~~The annual budget authorizes, and provides the basis of control over, financial operations during the fiscal year. Budgets are established in SABHRS to ensure effective budgetary control and accountability. For specific budgetary policy, refer to the budget preparation and execution policy issued by the Office of Budget and Program Planning.~~

~~A. Encumbrances~~

~~Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded as budgetary expenditures in order to reserve that portion of the applicable appropriation, is employed for budgetary control purposes. Encumbrances outstanding at fiscal year end represent the estimated amount of the expenditures ultimately to result if unperformed contracts in process at year end are completed. Encumbrances outstanding at year end do not constitute GAAP expenditures or liabilities of the current fiscal year. In the State's Comprehensive Annual Financial Report these outstanding~~

encumbrances will be reported as reservations of fund balance for subsequent year expenditure.

~~B. Working Capital Used For Budgetary and Rate Purposes At the request of the Legislative Finance Committee and Office of Budget and Program Planning, the Department of Administration has adopted a policy defining the calculation of working capital. Although the Statement of Changes in Working Capital has been replaced by the Statement of Cash Flows, working capital is still used in 2 CFR 225 (A-87) and the State proprietary rate calculation process.~~

~~For State budgetary and rate calculation purposes working capital is defined as the amount of cash that would remain if all of the current assets were converted, and all of the current liabilities paid, at their book value. As a result working capital is calculated by deducting total current liabilities from current assets. Because the working capital used in the State budgetary process and a 87 focus on an allowable 60 working capital balance, material inventory balances and other current assets not readily convertible to cash will generally be excluded from this calculation.~~

~~Current assets are those assets which will be used up or converted to cash within one year. This differs from the 60 day availability concept used for revenue accrual purposes in governmental funds.~~

~~Current liabilities are those liabilities which are payable within one year. Although encumbrance accounting (the use of A-Accruals) is required under State statute, encumbrances do not represent a valid liability and should not be included in the working capital calculation.~~

An example of a working capital calculation follows:

<i>Current Assets</i>	<i>\$1,187,863</i>
<i> Cash in Bank</i>	<i>\$1,171,775</i>
<i> Due From Federal Gov</i>	<i>50</i>
<i> Merchandise Inventory (1)</i>	<i>16,038</i>
<i>Total Current Assets</i>	<i>\$1,187,863</i>
<i>Current Liabilities</i>	
<i> Loans Payable—Current</i>	<i>\$ 655,802</i>
<i> Due to Other BU or Funds</i>	<i>17,022</i>

Vouchers Payable	396,578
FYE Payroll Payable	22,264
Accrued Liability	1,520
Comp Abs Current	23,096
Total Current Liabilities	\$1,116,282
Working Capital	\$ 71,581

~~(1) As noted above material inventories are normally excluded. Because this inventory balance is not material it is included in the example provided.~~

~~Fund balance, or net position, cannot be equated to working capital in proprietary funds because this residual balance includes non-spendable assets (e.g. equipment) and long-term liabilities (e.g. Other Post-Employment Benefits). Although the federal government may use an adjusted fund balance calculation in their working capital analysis, under 2 CFR 225 (A-87), the State will continue to use working capital, defined in this policy, as the basis for rate calculation in internal service funds. Based on information provided by the Federal Health and Human Services Division of Cost Allocation's Statewide Cost Allocation Plan Negotiator, fund balance, or working capital, used in indirect cost plan preparation may not include GAAP reported OPEB or pension expenses or their accrued liabilities. However, contributions made to the pension plans within the personal services category remain an allowable cost.~~

- ~~— Though working capital does not apply to enterprise funds, OPEB and pension expense and related liabilities, outside of the personal services expenditure category, may not be included in their basis for rate calculation. While the State may be legally responsible for pension liabilities, no portion is classified as current.~~
- ~~— The State finances their health benefit claims on a pay as you go basis and do not advance fund the actuarially determined OPEB or Pension liabilities. Thus, even though the difference between OPEB expense and the implied rate subsidy is classified as a liability on the financial statements, it does not represent a legal liability to the reporting entity. Additionally, in accordance with 2 CFR 225, Appendix B, Paragraph 8f.(2), post-retirement health benefit costs calculated using an actuarial cost method recognized by GAAP are only allowable if they are funded for that year within six months after the end of that year. Since the State does not fully fund OPEB expense or Net Pension Liabilities, these are unallowable costs to a Federal award.~~

XIV.—Classification and Terminology

Effective management control and accountability can best be achieved by utilizing a common language and uniform classification system in financial planning, management and reporting. To the maximum extent practicable, terminology and classifications should be consistently used in all phases of budgeting, accounting and reporting. It is especially important that:

- ~~Primary government interfund transfers are classified separately from fund revenues and expenditures (expenses). All interfund transactions occurring within the primary government, except loans or advances, interfund services provided and used and reimbursements, are transfers. See Montana Operations Manual policy 345, Interfund Activities, for further guidance on accounting for interfund transfers and transactions. Primary government payments (previously reported as transfers) to component units are included with fund revenues and expenditures (expenses). Transfer accounts will not be used for these transactions.~~
- ~~Proceeds of long term debt issues are classified separately from revenues and expenditures. They should be reflected as "Other Financing Sources" in the operating statement of the recipient governmental fund.~~
- ~~Governmental fund revenues are classified by fund and source. Expenditures should be classified by fund, function (or program), organizational unit, activity, account (character and principal classes of objects).~~
- ~~Non-governmental fund revenues and expenses are classified in essentially the same manner as those of similar business organizations, functions or activities. Such classification is appropriate in view of the nature of these funds and facilitates comparison of their operating results with those of like organizations in both the public and private sector.~~
- ~~In governmental fund accounting and reporting, use of the term "reserve" should be limited to indicating that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use. Use of the term "restricted" indicates that a portion of net position is legally restricted for an activity either by an outside party or the related enabling legislation (state constitution).~~

XV.—Comprehensive annual financial reportist

~~A Comprehensive Annual Financial Report (CAFR) covering all funds of the State of Montana including: introductory section; independent auditor's report; management's discussion and analysis; basic financial statements; required supplementary information; supplementary information with appropriate combined, combining and individual fund statements; schedules; narrative explanations; and statistical tables is prepared by the Distration's Accounting Bureau. This report is normally published by December 31 following the fiscal year end of June 30 and is available for distribution to interested parties.~~

~~The purpose of the State's financial statements is to report the financial position and results of operations for the primary government and all component units of the~~

~~State as if all the activities, organizations and functions were operated as a part of the State, reflecting a combining of all operations comprising the reporting entity (State of Montana).~~

~~Each state agency may establish internal policies/procedures for reporting financial data to management and other interested parties. State agencies may be requested to prepare supplemental reports, schedules, etc., to assist the DOA Accounting Bureau in preparing the State's CAFR (as permitted by Section 17-2-110(2), MCA).~~

in review