Date

MONTANA (department, board, office, council) OF \*\*

NOTES TO THE FINANCIAL SCHEDULES

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2XXX

*Agency Management: modify the following notes as needed for the schedules being audited. Additional notes may be necessary to aid readers of the financial schedules. Determining if and/or what additional notes may be necessary will require agency management to use professional judgment.*

1. Summary of Significant Accounting Policies

Basis of Accounting

The (department, board, office, council) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the (department, board, office, council) records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees’ annual and sick leave. State accounting policy requires the (department, board, office, council) to record the cost of employees’ annual and sick leave when used or paid.

The (department, board, office, council) uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust, Investment Trust, Pension and Other Employee Benefit Trust, and Custodial) fund categories. Under the accrual basis, as defined by state accounting policy, the (department, board, office, council) records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the (department, board, office, council) receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. (Consequently, these schedules do not agree in all cases to final state accounting system summary reports. These differences are explained in Note xx.)

The (department, board, office, council) uses the following funds:

Governmental Fund Category

**General Fund** – to account for all financial resources except those required to be accounted for in another fund.

**State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. (Department, board, office, council) State Special Revenue Funds include… (to be completed by each agency as necessary).

**Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. (Department, board, office, council) Federal Special Revenue Funds include… (to be completed by each agency as necessary).

**Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The (department, board, office, council) uses this fund for… (to be completed by each agency as necessary).

**Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The (department, board, office, council) uses this fund for… (to be completed by each agency as necessary).

**Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the (department’s, board’s, office, council’s) programs. The (department, board, office, council) uses this fund for… (to be completed by each agency as necessary).

Proprietary Fund Category

**Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. (Department, board, office, council) Internal Service Funds include… (to be completed by each agency as necessary).

**Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities’ cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. (Department, board, office, council) Enterprise Funds include… (to be completed by each agency as necessary).

Fiduciary Fund Category

**Pension and Other Employee Benefit** **Trust Funds** – to account for resources required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post employment benefit plans, or other employee benefit plans. (Department, board, office, council) pension trust funds include… (to be completed by each agency as necessary).

**Investment Trust Fund** – to account for situations where legally separate governments commingle their investments in a pool for the benefit of all participants. The (department, board, office, council) investment trust funds include… (to be completed by each agency as necessary).

**Private-Purpose Trust Fund** – to account for all fiduciary activities that are (a) not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. (Department, board, office, council) private-purpose trust funds include… (to be completed by each agency as necessary).

**Custodial Fund** – to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust should be reported in a separate external investment pool fund column, under the custodial fund classification. Custodial 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. The (department, board, office council) custodial funds include… (to be completed by each agency as necessary).

Changes in Accounting Policy

Beginning in Fiscal Year 2022, the State of Montana implemented GASB 87 – Leases, which generally requires long-term leases to be recorded as a liability and a corresponding right-to-use lease asset. Since these leases are accounted for as long-term debt, governmental funds will show a Non-Budgeted, Inception of Lease/Installment Contract category on the Schedule of Revenues and Transfers-in and a corresponding Non-Budgeted Expenditure on the Schedule of Total Expenditures and Transfers-out for the purchase of the leased asset.

(NOTE: this sentence is only needed in the year of implementation and only if material to the schedules) In the Schedule of Total Expenditures and Transfers-out, readers may also see a shift from Operating Expenses - Rent to a Debt Service – Lease Liability.

2. General Fund Equity Balance (negative balances)

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The (department, board, office, council) has authority to pay obligations from the statewide General Fund within its appropriation limits. The (department, board, office, council) expends cash or other assets from the statewide fund when it pays General Fund obligations. The (department’s, council, etc.) outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2XXX and June 30, 2XXX. (Note: if you have a negative General Fund equity balance you will only use this disclosure and you will omit the positive balance General Fund equity balance below.)

General Fund Equity Balance (positive balances)

The (department, board, office, council) has authority to pay obligations from the statewide General Fund within its appropriation limits. The (department’s, council, etc.) total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund equity balances for each of the fiscal years ended June 30, 20XX, and June 30, 20XX. These balances reflect the results of the activity of the (department, board, office, council) and not the fund equity balance of the statewide General Fund. . (Note: if you have a positive General Fund equity balance you will only use this disclosure and you will omit the negative balance General Fund equity balance above.)

3. Direct Entries to Fund Equity

Direct entries to fund equity in the (General, Special Revenue, Federal Special Revenue Fund, Debt Service, Capital Projects, Internal Service, Enterprise, ...) fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity in the (General, State Special Revenue, Federal Special Revenue Fund, Debt Service, Capital Projects, Internal Service, Enterprise, ...) funds also include: (correction of an error from a previous period that occurred at least two fiscal years prior; change in accounting principle, or a change in the application of an accounting principle; or retroactive change mandated by the GASB in conjunction with the implementation of a new pronouncement).

*(Agency management should add explanations for the specifics of material direct entries)*