



Department of Government Operations

Cooperative Contract Fund Classification Study

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The Challenge

- Current Cooperative Contract program's classification as an Internal Service Fund (ISF).
- **GASB 1300.110 and GASB 34 ¶ 68** state ISFs may be used for goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis, but only if the reporting government is the predominant participant. Otherwise, the program should be classified as an enterprise fund.

The Objective

- Re-evaluate the program as a potential Enterprise fund
- Ensure alignment of State Statute with Generally Accepted Accounting Principles (GAAP).

Entity Participation Classification

Entity Category

Sub-Entities Included

Classification Status

Primary
Government &
Component

State Departments, Executive Agencies,
Boards, State Universities

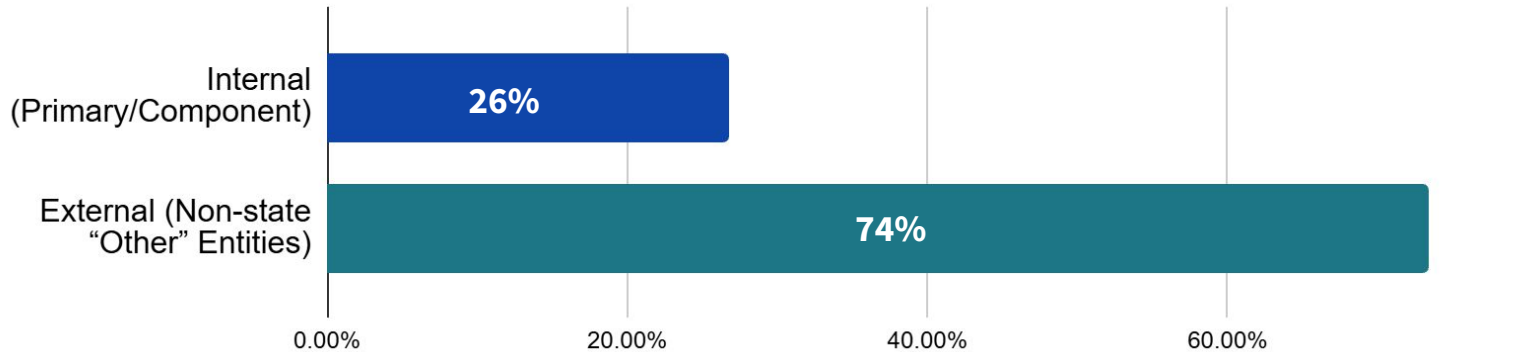
✓ Internal

Non-state “Other”
Entities

Cities, Counties, Housing Authorities,
Private 501(c)(3)s, School Districts

X External

Usage Distribution Analysis



Current cooperative contract usage data from the Division of Purchasing shows that purchases associated with non-state government entities represent the majority of activities, driving vendor fee collections.

The Pivot Point: If the participation numbers from the Division of Purchasing truly are that Non-state government agencies represent the "predominant" participant, the activity should be reported as an Enterprise Fund.

Interim Study Objectives

Ensuring Fiscal Integrity and Compliance through Legislative Action

Key Outcome Goals



Define Predominance Participation

Request a formal determination of whether "predominance" is measured by transaction volume, total dollar spend, or number of unique participating entities.



Verify Taxonomy

Conduct an audit of the program data to definitively categorize all current contract users.



Statute Realignment

Evaluate statutory changes needed to align legal fund structure with GASB/GAAP reporting



Risk Mitigation

Ensure the State's Annual Comprehensive Financial Report (ACFR) remains "clean" by proactively addressing this before a formal audit finding.

Defining Predominance Participation

The cooperative contract program generates revenue through vendor administrative rates. The rates are calculated as a percentage of sales. This income is entirely dependent on organizations actively using the cooperative contracts for procurement.

Participation determination questions:

- Which entity is actually placing the orders and using the contracts?
- Which entity or who is actually benefiting from the procurement?
- What activity is driving the vendor rates?

Under GASB Statement No. 34, the evaluation focuses on who receives the service, rather than who remits payment.

The Substance-Over-Form Principle

The "**form**" of revenue is a vendor payment, but the "**substance**" of the activity is a service or product provided to a specific user.

Although revenue comes from private vendors, the economic reality is that those vendors only remit a rate because a participating entity used the contract.

For GASB purposes, we must 'look through' the vendor to the actual user to determine if we are an Internal Service or an Enterprise activity.

GASB Technical Inquiry

Validation of Interpretation

Propose a formal technical inquiry to the Governmental Accounting Standards Board to confirm the reclassification requirement.

Specifically:

- Does the economic substance and operational purpose of this program meet the definition of an Internal Service Fund, or should it instead be reported as another proprietary fund type (enterprise fund) or governmental fund type (special revenue fund)?
- If the program is intended to accumulate reserves substantially beyond operational or working capital needs (beyond cost recovery), does that affect the appropriateness of an enterprise fund or ISF classification?

State Auditor Collaboration

Auditor Oversight

The State Auditor must agree with the transition path to ensure:

- Guideline are established for new reporting structure.
- Clean audit status for the ACFR is protected.
- Financial reporting transparency is maintained.

Federal Considerations

Evaluate how reserve accumulation, rate/fee structures, and use of excess resources align with:

- federal cost principles,
- procurement expectations, and
- cost-reimbursement concepts applicable to participating governmental and federally funded entities.

Potential areas for review include:

- reasonableness of rates/fees,
- excess reserve accumulation,
- cross-subsidization, and
- whether program revenues substantially exceed operational need.

Risk of Non-Action

100%

GAAP Compliance Goal

The Cost of Inaction

- Continuing to report the program as an ISF, even if external are the predominant participant, invites an audit finding.

The risks include:

- Inaccurate financial standing for the State.
- Potential negative impacts on credit ratings.
- Reduced transparency for legislative oversight.



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Thank You

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