The State of New Mexico’s Comprehensive Annual Financial Report (CAFR) has been audited for four years. During this time the state has been challenged to identify and eliminate all intra-entity transactions, unable to ensure that all required transactions have been recorded, and could not guarantee all recorded activity was accurate. During the audit of the fiscal year 2016 CAFR, and after consultation with the Government Accounting Standards Board (GASB), it became apparent that there were fundamental issues in the existing process, a process which aggregates agency level financial statements that employ financial reporting conventions that in some cases differ from those used by other agencies within the state and at the statewide level. Additionally, the process of initiating and assembling a statewide CAFR after the completion of agency audits, which are required under statute (NMSA 12.6.3), has been problematic both from a timeliness and accuracy perspective. Specifically, while many of the accounting conventions used by agencies appear rational at a parochial level, they can be misaligned with the appropriate way of reporting the activity at the primary government level. As a result of agency reporting and timing differences, it has not been possible to ensure all required eliminations have occurred when assembling the state CAFR.

With that as prologue, and given GASB guidance that the primary government CAFR is the only true Generally Accepted Accounting Principles (GAAP) financial statement, the state will initiate a comprehensive process of reviewing its major transactions and account balances to ensure proper primary government financial reporting. Concurrent with that effort, a decision will be made as to proper and consistent “sub-entity”/agency financial reporting, including what entity should be reporting the activity. Activities shall only be reported in aggregate one time by the state’s sub-entities. This undertaking will be demanding, and it is expected to impact many sub-entities financial statements. Sub-entities will be responsible for communicating any changes in financial reporting practice to their Auditor, who then will decide on what type of disclosures are required. This is the first of a series of necessary changes and this document focuses on the state’s land grant permanent fund (LGPF).

Consistent reporting of the LGPF, among the many published State of New Mexico sub-entity level financial statements, has been an issue since the release of Governmental Accounting Standards Board Statement 34 Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments almost two decades ago. New Mexico’s unique requirement of issuing audited financial statements at less than “full entity level” which are then rolled up into the CAFR make consistency imperative. The concept of consistent “sub-entity” or division-level financial statements was highlighted by GASB during a March 16, 2017 teleconference, hosted by the Office of the State Auditor. The results of that conversation have far reaching and extensive impacts on the state’s sub-entity financial statements. This impact reaches far beyond the LGPF, and will necessitate fundamental and comprehensive accounting model changes.

Initially identified during the audit of the State of Mexico fiscal year 2015 CAFR, the inconsistent recognition within and among the state’s numerous published financial statements of the share and fund classification of the LGPF has been a perplexing issue. A legal opinion indicates title to the land and corpus derived from the land are state assets with resulting use and distribution to be compliant with the grant agreement. Nowhere in the state’s documented accounting policy has authorization been provided to state sub-entities directing them to present this information in their financial statements. Guidance provided by the Governmental Accounting Standards Board generally does not allow for presentation of beneficial interest in the assets of another
governmental body as assets of the reporting entity. GASB indicated that reporting entities which are sub-entities of the primary government may present their share, as long as it was consistent across the entire entity. However, given numerous state reporting entities, research indicates that there is one rational way to report the LGPF to ensure sub-entity and CAFR financial statement consistency and supports the concepts of relevance and understandability of the state's collectively published statements.

Therefore, compliant with GASB guidance and to address the weaknesses identified above, the LGPF shall be accounted for as follows at the sub-entity level:

Land Grant and Land Grand Permanent Fund Reporting Guidelines

- The historical value of the donated federal land shall be reported as a General Capital Asset by the Commissioner of Public Lands (COPL). No further allocation or distribution shall occur and it will be carried into the primary government CAFR unchanged in amount and characterization at year-end.
- At year-end, the Commissioner of Public Lands will account for, and transfer to, the beneficiaries the value of royalties, rentals and deposits currently reported as assets held in trust in a fiduciary fund. Entities receiving these assets shall report the incremental receipts consistent with actual distributions. Only assets not belonging to the state are to be reported as fiduciary assets. Depending on materiality, the inclusion of state assets in a fiduciary fund could result in a modified or disclaimed audit opinion.
- State Investment Council (SIC), as the state sub-entity responsible for managing the LGPF, shall account for the LGPF, in its entirety, as an asset within a governmental fund. This data shall roll-up into the CAFR unchanged at year-end. All other recipients shall cease reporting the LGPF as an asset in their financial statements, as it will be reported by SIC. Compliant with GASB 54 the fund balance shall be classified as restricted on SIC's books.
- LGPF beneficiaries shall only report their share of distributions in the financial statement and the impact of any closing entries by the Commissioner of Public Lands that distributes previously misclassified state assets held in trust. Beneficiaries may disclose their share of assets held by SIC in a note disclosure.
- The state’s CAFR shall be prepared by aggregating the sub-entity financial statements.
  - The CAFR shall report the value of land which will roll-up from the division-level COPL report.
  - The CAFR shall report the value of the LGPF that will be presented based on the nature of the assets held and derived from the SIC financial statements. It will incorporate assets unallocated and shown as assets held in trust by the Commissioner of Public Lands, if applicable, and LGPF asset valuation adjustments value previously unallocated by SIC.

The approach described above is the preferred way to produce consistent division-level and statewide CAFR financial statements that are relevant and support assigned accountability for these assets. Specifically, parties interested in the LGPF may access that data by reviewing the financial statements of the state sub-entity responsible for investing them, the State Investment Council, which will report 100% of the assets or by referring to the State CAFR.

This change becomes effective with the FY17 published financial statements.

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