

ADDENDA TO  
ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS

Agency Funds have been used by State business units, acting in the capacity of a collection agent, as clearing accounts to record comingled cash received from tax payers and other remitters that require analysis and subsequent apportionment and distribution. These liquid assets are held briefly to determine ownership. Distributions are made to other State funds, individuals, local governments and other entities. For annual external financial reporting purposes, the State must comply with the GASB requirement that only assets belonging to entities other than the State remain in Agency Funds at the end of the reporting period.

During the audit of the FY16 CAFR, it was noted that many Agency Funds contained sizable balances. While the balances did not belong to the collecting agency a large portion did belong to the State. By allowing State balances to remain in Agency Funds the business unit, by omission, classified these funds as fiduciary assets, this misclassification carried into the State Comprehensive Annual Financial Report (CAFR) and resulted in a major audit finding. Agencies are divisions of the State, retaining money in Agency Funds that belong to other state entities at the close of the fiscal year violates the GASB requirement that only assets held for others be reported in Agency Funds.

For fiscal year 2017, the State will adopt the following policy and shall apply it to the six agencies noted below. Other State entities that use Agency Funds and have a year-end asset balance of \$5M or greater attributable to other entities of the State should immediately notify the CAFR Unit and follow this policy too.

Policy: At the end of the fiscal year, agencies shall review Agency Fund balances and transfer balances belonging to the primary government (also known as the State) to the appropriate governmental fund. This will be accomplished via the use of an OPR for agencies using SHARE, the State's Enterprise System, or a Due to / Due from for entities using different accounting systems. Entities using the Due to / Due from approach must communicate with, and document confirmation of acknowledgement with the impacted counterparty. These transactions shall be dated June 30 of the fiscal year ending. Depending on when the initial cash remittance was received, the accounting transaction may result in transferring the claims balance in the State General Fund Investment Pool (SGFIP) too.

#### Compliance with Economic Event Concept:

When accounting for cash and claims on the SGFIP, the state records activity based on the date of the economic event. An economic event is typically identified by the transfer of payment from one party to another which causes cash or the interest in SGFIP to increase or decrease. The accounting date used to record the activity is the event date. This tenant is applicable to AP, AR and transfers between funds. For cash entries to be backdated to June 30 or earlier, the cash transaction between the primary parties must have occurred on or before June 30. As a general rule, the State has used bank date to set event date for monetary transactions.

Transactions that have been approved for the "back dating of cash", which has been referred to as "old cash" include:

- Correction of a booking error. For example, a deposit, the cash event between the primary parties, was posted at the bank and general ledger on May 1. It was

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discovered in July that the deposit was recorded in the wrong fund. The correction does not record any “new cash” but just changes the party receiving the credit. The original economic event, the receipt of cash, occurred on May 1, an entry impacting cash can be made in the prior fiscal year since all we are doing is correcting the original event.

- Cash was deposited in the bank on or before June 30, but the deposit was not applied until July. The general rule concerning cash is that the general ledger booking date must be consistent with bank date.

These exceptions shall be augmented as follows:

- If cash has been received in an Agency Fund prior to July 1 (deemed the transaction between primary parties), but ownership and distribution needs to be determined and determination occurs within a reasonable amount of time, i.e. normally within 60 days, an OPR shall be prepared that decreases (debits) a liability account in the Agency Fund and credits a revenue account in the governmental fund. This entry will clear both the liability and reduce the claim on the SGFIP in the Agency Fund and place a like amount in the proper governmental fund compliant with GASB. Comment: The cash was received prior to the end of the fiscal year however proper ownership was not determined until after the fiscal year had ended. If the State received the cash prior to July 1, it must be recorded in the proper governmental fund prior to closing the books. In the transaction above, the business unit stewarding the Agency Fund is acting on behalf of the state the date of cash receipt becomes the date of the economic event.
- Consistent with the State’s budgetary basis, all unspent funds linked to the General Fund should revert back to the General Fund as of June 30. While agencies are given to September 30<sup>th</sup> to make the determination, the economic event is the tolling of the fiscal year. Therefore, the reversion due to the general fund should be processed as OPRs and cleared as of June 30 if the entry is processed by XX September 2017. Entries after that date shall be Fiscal Year 2018 transactions.

#### Specifically Excluded Activity

- Cash settlement for amounts owed for internal services shall be based on payment date. If the billings did not occur until after the fiscal year, these cannot be considered old cash transactions.

#### Other Required Agency Fund Distributions

- Remittances received in Agency Funds after June 30, but which based on GASB revenue recognition guidance are deemed to be attributable to the prior fiscal year event will be recorded initially as a receivable and a liability in the Agency Fund. Upon

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determination of the portion of the remittance belonging to a State governmental fund an entry to transfer the appropriate balance shall be made by the Business Unit stewarding the Agency Fund. The entry should reduce the receivable/asset and liability on the Agency Fund's books and place the same amount on the governmental fund's books as a receivable and revenue. A combined two business unit OPR should be processed by the business unit stewarding the Agency Fund to accomplish this. This accounting process would be applicable to tax receipts received up to 60 after fiscal year that are associated with prior fiscal year assessments.

- If the Agency Fund contains receivables that have an offsetting allowance these balances should be analyzed and both the applicable share of receivable and offsetting allowance belonging to the State should be removed from the Agency Fund and recorded in applicable the governmental fund. At the beginning of the next fiscal year the entry should be reversed and placed back in the Agency Fund for proper monitoring.

The table below presents the Agency Fund balances, in dollar million, presented by the six business units at the end of FY16. At a minimum these units should investigate the associated Agency Funds and apply this policy as described above.

| <b>Assets / Liabilities</b>                  | <b>TRD-333</b> | <b>OSI-440</b> | <b>SLO-539</b> | <b>STO-394</b> | <b>PRC-430</b> | <b>DFA-341</b> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Interest In SGFIP                            | ★ 687.6        | ★ 10.2         | ★ 129.5        |                | ★ 83.0         | ★ 43.6         |
| Advances                                     |                |                | 9.1            |                |                |                |
| Due From other state agencies and CU         |                |                |                |                | ★ 18.8         | ★ 7.7          |
| Receivables                                  | ★ 825.6        | ★ 73.8         | ★ 52.7         | 15.2           |                |                |
| Citations and Assessments                    | ★ 1,207.1      |                |                |                |                |                |
| Allowance                                    | ★ (1,207.2)    |                | (0.3)          |                |                |                |
| Investments                                  |                |                | 14.4           |                |                |                |
| Assets                                       | 1,513.1        | 84.0           | 205.4          |                | 101.8          | 51.3           |
| Payables                                     | 0.1            |                | 0.2            |                | 51.0           |                |
| Due to Beneficiaries /counties/munis/refunds | 374.0          |                |                |                |                | 6.4            |
| Due to State Agencies/Fund                   | ★ 892.9        | ★ 24.6         | ★ 9.1          |                | ★ 11.3         | ★ 16.6         |
| Due to State General Fund                    |                | ★ 56.8         |                | 15.2           | 15.1           |                |
| Unidentified / Undistributed                 | ★ 231.2        | ★ 2.3          | ★ 186.1        |                | 24.3           | ★ 27.4         |
| All Other                                    | 14.9           | 0.3            | 10.0           |                | ★ 0.1          | 0.9            |
| Liabilities                                  | 1513.1         | 84.0           | 205.4          |                | 101.8          | 51.3           |

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Accounting Examples

Cash from remitter Received Prior to July 1, 2017

Business Unit Responsible for Agency Fund Debits Liability

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