

ACCOUNTING POLICY STATEMENT FOUR – CUSTODIAL FUNDS

Agency funds are used to account for the assets collected and held by the state as an agent for entities other than the state. Additionally, and more commonly, agency funds have been used by the state, 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, apportionment and distribution. These cash receipts are held briefly pending determination of ownership. Distributions are then made to individuals, local governments and other state funds. For external financial reporting purposes, the State must comply with the GASB requirement that only assets belonging to parties other than the State remain in Agency Funds at the end of the reporting period.

During the FY16 CAFR audit, it was noted that many Agency Funds contained sizable balances and a large portion of the assets belong to the State. By allowing State balances to remain in Agency Funds, the state agency, by an error of omission, classified these funds as fiduciary, this misclassification carried into the State Comprehensive Annual Financial Report (CAFR) and resulted in an 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.

Recognizing that a state agency is a division of the primary government, Agency Funds should not contain assets belonging to the State when preparing external financial statements. Instead assets belonging to the State must be reported in the governmental fund in which the collections are to be sent. All business units using Agency funds must ensure compliance with the GASB requirement that only assets held for others (defined as entities outside of the primary government) are reported in Agency Fund at year-end.

For fiscal year 2017, the State adopted a policy that required Business Units to review Agency Fund balances and transfer balances belonging to the primary government (that is the State) to the appropriate governmental fund. Additionally, for movements occurring after the end of the fiscal year, but linked to cash received prior to July 1 the entry was to include an inferred impact of claims against the state investment pool.

Specifically, and with respect to Agency Funds the following practice shall be implemented:

- If cash has been received in an Agency Fund prior to July 1 (deemed the transaction between primary outside parties), but ownership and distribution needed 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: Cash was received by the state 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 the state and the date of cash receipt is the date of the economic event.

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 moved 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.

This change was implemented with the FY17 published financial statements.

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TYPE	AGENCY			
Sum of Balance				
BU Number	Business Unit Name	Fund Number	Fund Description	Total
21800	Admin Office of the Courts	53200	Court Facilities	419,058
		53300	Warrant Enforcement Suspense	22,561
		68700	Crime Lab. Fees	4,169
		68800	Correction Fees	873,519
		82200	Magistrate Suspense	245,382
28000	Public Defender	75310	Public Defender	1,100
30500	Office of the Attorney General	08100	DR/AMM Cost Share	300,021
		12700	Buspar Multistate Antitrust	7,040
		69500	Victim Restitution Fund	1,300
		70100	Special Trust Fund	11,260
		70200	Cummins Settlement Fund	6,667
		95000	To be determined	320,171
33300	Tax and Revenue Department	68100	County Municipal Gasoline Tax	6,486,531
		68400	Small Cities Assistance	6,357,360
		70900	Local Liquor Tax Fund	251,874
		71300	Oil & Gas Ad Valorem Prod. Tax	20,420,066
		71400	Copper Production Tax Fund	0
		71500	Ad Valorem Equipment Tax	(30,628)
		82500	Trans. And MVD Suspense	1,665,620
		82600	TAA Suspense	(1)
		83000	Delinquency List Suspense	(7,622)
		83100	Workmens Comp Fund	7,622
		83200	CRS TAA Suspense-Trims	135,323,427
		83300	Oil & Gas Accounting Suspense	(0)
34100	Department of Finance & Admin	00300	Contribution Fund	11,173
		00900	Computer System Enhancement Fd	10,908,857
		04500	DFA - Carrie Tingley Hospital	4,080
		22400	NM Instit Mining-Tech	(8,333)
		23300	UNM	107,943
		37600	Dom Viol Offender Trtmnt Fund	373,748
		58900	Judicial Educ. Fd. - General	103,134
		59000	Jud. Educ. Fd. - Munic. Courts	21,670
		71900	Central Payroll Bond Acct	42,437
		72400	Payroll Reissue Account	28,041
		73700	Small Counties Assistance	6,225,177
		76100	St Treas/Cp & R Fund	83,642
		80000	County Treas Remittance	136,711
		83400	Cancelled Payroll Warrant Sus	227,332
		96600	Private Activity Bond Suspense	6,525
34101	Dept of Fin/Admin General Fun	72410	BSP Clearing - DFA USE only	(6,306)
35000	General Services Department	11490	GOV RESIDENCE PRESERVATION FD	19,210
		56100	Insurance Carrier Premiums	(544,095)
		56105	Insurance Carrier Premiums	3,085,187
		75100	GSD - Bond Securities	31,858
		75105	GSD - Bond Securities	(31,708)
37000	Secretary of State	12110	Corporations Fees Fund	3,315
		79900	Secretary of State Fees	18,321
39400	State Treasurer's Office	83700	St Treas - Min Royalty Unclaim	(0)
42000	Regulation & Licensing Dept	43600	MHD-Receipts	92,346
		43700	CID Receipts	471,967
		80800	Alcohol and Gaming Receipts	(100)
43000	Public Regulation Commission	19000	Motor Transportation Receipts	(2,552)
		56400	Firefighters Survivors Fund	260,425
44000	Superintendent of Insurance	11820	Insurance Suspense Fund	3,002,480
46500	NM Gaming Control Board	95100	Agency Fd-Licensing&Background	10,450
46900	NM State Racing Commission	81400	Racing Receipts	950
50500	Department of Cultural Affairs	20070	Main Street Revolving Loan Fun	66,408
		59300	Historic Preserv. Rev. Loan Fd	411,550
50800	Livestock Board	19600	LIVSTOCK BOARD-AGENCY FUND	1,321
52100	Energy, Minerals & Resources	77300	Boat Suspense Fund	68,841
53900	State Land Office	26400	Ongard/Oil & Gas Royalty(2)	69,938,405
		51400	Royalty Advance Payment Fund	1,170,507
		77600	Sales Expense Fund	27,533
		77700	Land Suspense	18,363,768
55000	Office of State Engineer	84900	Irrigation Fees Susp-Agy Fund	29,607
63000	Human Services Department	97800	Child Support Enforcement Div.	331,633
63100	Workforce Solutions Department	17800	Labor/Ind Div Wage Claim Trust	40,852
66500	Department of Health	50204	DOH-Birth & Death Cert. Fees	152
67000	Department of Veterans Service	12300	Veterans Natl Cemetery Fund	10,186
69000	Children, Youth & Family Dept	09600	Dep-Rep Payee for SSI Benefits	114,490
		49000	Rep Payee for SSA & SSI Benefit	783,336
79000	Department of Public Safety	40200	DNA Identification Fund	221,892
92400	Public Education Department	57300	Ed. Dept./Driving Safety Fees	5,421,446
Grand Total				294,372,308