

ACCOUNTING POLICY STATEMENT THREE – INTERFUND TRANSACTIONS AND ACCOUNTING

A challenge facing the State during development of Comprehensive Annual Financial Report (CAFR) relates to the consolidation and elimination of transactions that occur within and between funds. This activity has been referred to as internal, interfund and intra-entity transactions. We shall refer to these transactions as interfund transactions for short.

A “Fund” is an independent and self-balancing accounting entity, much like a business entity. Like its corporate counterpart, there can be transactions within the business entity and between and among subsidiaries. For a government entity, accounting transactions can occur within and between funds. Ensuring interfund transactions have been recorded consistently, and in the same accounting period has been problematic which makes preparing the State’s CAFR difficult.

This accounting policy is applicable to entities that are included in the State of New Mexico CAFR, and specifically covers transactions between those related entities.

The following four types of transactions between funds are impacted by this policy:

Interfund Reimbursement – Interfund reimbursement refers to a type of transaction that is initially recorded in one fund and then allocated within, between and among additional funds. This is the only accounting process that should be used within a fund. Entries of this type should be balanced by account, accounting period and amount.

Accounting Process: First an external (with outside party) transaction is recorded to a fund on an agency’s books. The business unit with the first incurred cost then reverses all or part of the initial transaction using the same initial account coding and records the offset to the receiving or reimbursing entity using the same account coding. Except for receiving business unit and fund, the transactional account coding remains the same. Transaction timing and accounting date must be consistent among all entities when recording the reimbursement entry.

This type of transaction is called a non-reciprocal reimbursement, because it appears only one party is obtaining anything of value. However, in most cases the other party to the transaction did receive a share of the benefit of the original transaction.

Example: A Credit Card noncompliance fine is received and processed by Business Unit A and recorded as an expenditure. This expenditure however is the result of entity-wide noncompliance and is to be shared by other noncompliant funds: Business Unit A reverses all or part of expenditure entry within its fund and records the full or appropriate part of expenditure to the funds of other participating Business Units. Transaction date of the reimbursement entry is identical on the books of all entities.

The final three interfund transactions (transfers, loans and services) are limited to activities between funds and legal entities that are reported as part of the primary government. For the transaction types described below, it is critical that the transactions are recorded by all impacted parties in the same period, and in an offsetting fashion with appropriate identification of the counter partner so the transactions can be consolidated correctly and eliminated when necessary at the various reporting levels.

Interfund Transfers – Normally used to move financial resources from one fund to another without reciprocal service or value. Interfund transfers do not involve a requirement for, or expectation of repayment. This type of transaction is recorded using Other Financing Sources

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and Uses accounts. The counter party should be identified in the transaction by use of the Affiliate and Affiliate Fund fields. This type of transactions should never be used for activities within a fund.

Example State's Monthly Allotment

Debit: Other Financing Uses – GF Allotment Agency 34101 Fund 85300–Affiliate B Affiliate FundB

Credit: Other Fin Sources – GF Approp. Agency B Fund B – Affiliate 34101 Affiliate Fund 85300

Interfund Loans – Interfund loans affect the balance sheet only. A Due To and Due From should be established. Transaction dates used to record the transaction must be identical for the borrower and lender and each counter party should be identified as the “business partner” using the affiliate and affiliate fund fields. This type of transactions should never be used for activities within a fund.

Interfund Services – Services provided by one fund, typically an Internal Service Fund, to another fund should be accounted for as a sale and purchase between funds, if the transaction price approximates an arm's length transaction. This should be limited to activities where part of the cost of the entity providing the service is being recovered in the price.

Although accounted for as a sale and purchase, unpaid balances must be classified as Due To and Due From with identification of the counterparty. At year end, parties that are accruing unbilled revenue and the related due from must notify the receiving party of the transaction to ensure the other side of the transaction is recorded. A more controlled process would be for the initiating party to process an journal entry that includes both sides of the transaction. These type of transactions should never be used for activities within a fund.

Quality Expectations

Timing – Transactions must be recorded in the period they occur and consistently on the books of all impacted related parties.

Balanced – Accounts used in related party transaction are either identical, in the case of interfund reimbursements or linked.

Complete Party Identification – To facilitate proper elimination at the correct reporting level during the consolidation, accurate identification of counter parties and counter party fund is a core requirement.

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BUSINESS UNIT	DESCRIPTION	BUSINESS UNIT	DESCRIPTION
11100	Legislative Council Service	34103	Board of Finance
11100	Legislative Council Service (131-C)	34200	Public School Insurance Authority
11200	Legislative Finance Committee	34300	Retiree Health Care Authority
11400	Legislative Council Services/Senate (111-A)	35000	General Services Department
11500	Legislative Council Services/House (111-B)	35200	Educational Retirement Board
11700	Legislative Education Study Commission	35400	Sentencing Commission
11900	Legislative Council Services Building Service (11100)	35600	Governor's Office
13100	Legislature (131)	36000	Lieutenant Governor's Office
13101	Legislature (131-B)	36100	Department of Information Technology (OCIO)
13102	Legislature (131-A)	36600	Public Employees Retirement Association
20500	Supreme Court Law Library (216-D)	36900	Commission of Public Records
20800	Compilation Commission (216-E)	37000	Secretary of State
21000	Judicial Standards Commission	37800	State Personnel Office
21500	Court of Appeals (216-C)	37900	Public Employee Labor Relation Board
21600	Supreme Court	38500	NM Finance Authority
21800	Administrative Office of Courts (216-A)	39400	State Treasurer's Office
21801	Administrative Office of Courts (216-A)	39401	State General Fund Investment Pool (contra-account)
21900	Supreme Court Building Commission (216-B)	39403	State Treasurer's Office - Private Purpose Trust
23100	First Judicial District Court	40400	Board of Examiners for Architects
23200	Second Judicial District Court	41700	Border Authority
23300	Third Judicial District Court	41800	Tourism Department
23400	Fourth Judicial District Court	41900	Economic Development Department
23500	Fifth Judicial District Court	42000	Regulation and Licensing Department
23600	Sixth Judicial District Court	43000	Public Regulation Commission
23700	Seventh Judicial District Court	44000	Office of Superintendent of Insurance
23800	Eighth Judicial District Court	44900	Medical Board
23900	Ninth Judicial District Court	44900	Board of Nursing
24000	Tenth Judicial District Court	46000	EXPO New Mexico
24100	Eleventh Judicial District Court	46400	Professional Engineers & Surveyors Board
24200	Twelfth Judicial District Court	46500	Gaming Control Board
24300	Thirteenth Judicial District Court	46900	State Racing Commission
24400	Bernalillo County Metro Court	47900	Board of Veterinary Medicine
25100	District Attorney 1st District	49100	Military Home Base Planning
25200	District Attorney 2nd District	49500	Spaceport Authority
25300	District Attorney 3rd District	50500	Department of Cultural Affairs
25400	District Attorney 4th District	50800	Livestock Board
25500	District Attorney 5th District	51600	Department of Game & Fish
25600	District Attorney 6th District	52100	Department of Energy, Minerals and Natural Resources
25700	District Attorney 7th District	52200	Youth Conservation Corp (52100)
25800	District Attorney 8th District	53800	Intertribal Ceremonial Office
25900	District Attorney 9th District	53900	Commissioner of Public Lands
26000	District Attorney 10th District	54700	Cumbres & Toltec Railroad
26100	Dist. Attorney 11th District (Division 1)	56000	State Engineer's Office
26200	District Attorney 12th District	60100	Commission of the Status of Women
26300	District Attorney 13th District	60300	Office of African American Affairs
26400	Administrative Office of District Attorneys	60400	Commission for Deaf & Hard of Hearing
26500	Dist. Attorney 11th District (Division 2)	60500	Martin Luther King Jr. Commission
28000	Public Defender Department (used to be 35500)	60600	Commission for the Blind
30500	Attorney General	60900	Indian Affairs Department
30800	State Auditor	62400	Aging & Long Term Services
33300	Taxation and Revenue Department	63000	Department of Human Services
33700	State Investment Council	63100	Workforce Solutions Department
34000	DFA - Hearing Officers	63200	Worker's Compensation Administration
34100	Department of Finance and Administration	64400	Division of Vocational Rehabilitation
34101	State General Fund (306)	64500	Governor's Commission on Disabilities Page 2 of 3
34102	Payroll Contra-Account (should net to zero)	64700	Development Disabilities Planning Council (92400)

BUSINESS UNIT	DESCRIPTION
66200	Mine's Coffey Medical Center
66500	Department of Health
66700	Environment Department
66800	Natural Resources Trustee
67000	Department of Veterans Services
69000	Child, Youth, and Families Department
70500	Department of Military Affairs
70000	Adult Parole Board
76600	Juvenile Parole Board
77000	Department of Corrections
78000	Crime Victims Reparation Commission
79000	Department of Public Safety
79600	Department of Homeland Security & Emergency Management
80500	Department of Transportation
81100	NM Lottery
81400	NM Mortgage Finance Authority
92400	Public Education Department
94000	Public School Facility Authority
94900	Education Trust Board (951)
96000	Department of Higher Education
96300	NM State University
96500	Eastern NM University
96700	NM Highlands University
96900	NM Institute/Mining & Technology
96100	NM Military Institute
96200	Western NM University
96300	Northern NM Community College
96600	NM School Visually Handicapped
96700	NM School Deaf
96800	University of NM
No Number	New Mexico Small Business Investment Corporation