

ACCOUNTING INTERPRETATION NO. 2

Subject: Interfund Transactions

Basically there are five (5) categories of interfund transactions.

- (1) **Quasi-External Transactions.** Transactions that would be treated as revenues, expenditures, or expenses, if they involved organizations external to the governmental unit (e.g., payments in lieu of taxes from an Enterprise Fund to the General fund; Internal Service Fund billings to departments; routine employer contributions from the General Fund to a Pension Trust Fund; and routine service charges for inspection, engineering, utilities, or similar services provided by a department financed from one fund to a department financed from another fund) should be accounted for as revenues, expenditures, or expenses in the funds involved. These frequently give rise to short-term interfund debt reported in "Due to _____"/ "Due from _____" accounts.

GASB 34 now refers to this type of activity as "reciprocal interfund activity" which will consist of interfund loans and interfund service provided and used. Interfund services provided and uses are to be reported as external transaction, as ie, revenue and expenditures/expenses.

- (2) **Reimbursements.** Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund (e.g., an expenditure properly chargeable to a Special Revenue Fund was initially made from the General Fund, which is subsequently reimbursed) should be recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.
- (3) **Residual Equity Transfers.** Nonrecurring or nonroutine transfers of equity between funds (e.g., contribution of Enterprise Fund or Internal Service Fund capital by the General Fund, subsequent return of all or part of such contribution to the General Fund, and transfers of residual balances of discontinued funds to the General Fund or a Debt Service Fund).

This account will be replaced by accounts entitled "transfers in" or "transfers out" for entities implementing GASB 34. Transfers to an enterprise fund or internal service fund will be reported as a contributions revenue for transfers which involve capital assets.

- (4) **Operating Transfers.** All other interfund transfers (e.g., legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, transfers of tax revenues from a Special Revenue Fund to a Debt Service Fund, transfers from the General Fund to a Special Revenue or Capital Projects Fund, operating subsidy transfers from the General or a Special Revenue Fund to an Enterprise Fund, and transfers from an Enterprise Fund other than payments in lieu of taxes to finance General Fund expenditures).

This account will be replaced by accounts entitled "transfers in" or "transfers out" for entities implementing GASB 34.

- (5) **Interfund Loans (Advances).** **Movements of money** between funds representing short-term loans should be reflected by "Due to _____ Fund" and "Due from _____ Fund" asset and liability accounts. Movements of money representing a loan extending

beyond one year should be reflected as an "Advance to _____ Fund" asset account from the fund loaning the cash and also reflect a fund balance reserve for the loan in the equity section of the balance sheet general ledger account. The fund receiving the long-term loan should reflect the liability account "Advance from _____ Fund." An example of a long-term loan or advance is the establishment of an Imprest Fund from the General Fund in the Agency Funds.

The accounting entries for interfund loans would be as follows: The fund loaning the money would debit "Due from _____ Fund" or "Advance to _____ Fund" and credit "cash." The fund receiving the loan would debit "cash" and credit "Due to _____ Fund" or "Advance from _____ Fund." A transfer is not recorded for these interfund loans.

For entities implementing GASB 34 in the governmental and business type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which should be presented as "internal balances". Accounts receivable or payable from a fiduciary fund should instead be reported as receivables and payables to external parties in the statement of net position.

Note: Interfund transactions not covered explicitly above should be reflected according to their substance and with due regard for adequate disclosure.

Interfund transfers should be distinguished from revenues, expenses, or expenditures in financial statements. Residual equity transfers should be reported as additions to or deductions from the beginning fund balance of governmental funds. Residual equity transfers to proprietary funds should be reported as additions to contributed capital; those from proprietary funds should be reported as reductions of retained earnings or contributed capital, as appropriate in the circumstances. Operating transfers should be reported in the "Other Financing Sources (Uses)" section in the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Operating Transfers" section in the statement of revenues, expenses, and changes in retained earnings (proprietary funds). Operating transfers thus affect the results of operations in both governmental and proprietary funds.

GASB 34 transfers in and transfers out should be reported as other financing sources or uses on the fund financial statements. However, they are shown as part of general revenues and transfers in the government-wide financial statements.