

## 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 used are to be reported as external transactions, 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 nonspendable fund balance 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." 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, the interfund receivables and payables should be eliminated 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.

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. 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 "Transfers" section in the statement of revenues, expenses, and changes in net position (proprietary funds).