INTRODUCTION

The Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (2015-2016 Codification) Section 1800.102 - 1800.107 provides guidance regarding the classifying and reporting of interfund transactions. As a rule, local units of administration (LUAs) should treat interfund transactions consistently in both the paying and receiving funds. In Georgia LUAs, interfund transactions are not too common since most LUAs maintain a minimum number of accounting funds.

As a result of the GASB issuing GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions (GASBS 33) and GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments (GASBS 34), the classifications of interfund activities (i.e., formerly classified as interfund transactions) have changed.

GAAP divides interfund activities into two main categories with various subcategories:

1. Reciprocal interfund activity
   a. Interfund loans
   b. Interfund services provided and used

2. Nonreciprocal interfund activity
   a. Interfund transfers
   b. Interfund reimbursements

These distinctions are important since the accounting and reporting for interfund activity vary depending on the above categorization. In addition, a LUA needs to make a distinction
between interfund loans and interfund transfers. A LUA will repay a loan in some future period but a transfer is intended to be permanent and is treated similar to a revenue (in the receiving fund) and similar to an expenditure (in the paying fund).

**RECIPROCAL AND NONRECIROCAL INTERFUND ACTIVITIES**

Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. An exchange transaction is one in which “each party receives and gives up essentially equal values.” Nonreciprocal interfund (internal) activity is analogous to nonexchange transactions or other events. In a nonexchange transaction, a LUA gives (or receives) value without directly receiving (or giving) equal value in return.

**INTERFUND LOANS**

LUAs often temporarily reallocate resources by loaning monies between individual funds. These interfund loans are loans between individual funds, usually for working cash purposes. Generally, interfund loans are short-term in nature. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds.

GAAP does require that if repayment of an interfund receivable is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

**INTERFUND SERVICES PROVIDED OR USED**

Most of the transactions for internal service funds are classified as interfund services. Before the GASB issued GASBS 34, GAAP classified these transactions as quasi-external interfund transactions. These interfund transactions are transactions between funds, which do not constitute transfers, but are appropriately accounted for as revenues, expenditures, or expenses as if they involved parties external to the LUA. Such transactions normally constitute charges for goods or services and are normally based on actual costs incurred. As an example, the general fund receives an invoice from the data processing internal service fund. The general fund records the transaction as an expenditure and the internal service fund records the transaction as revenue, as if it were a third party transaction (i.e., like a transaction with a regular vendor).

**INTERFUND TRANSFERS**

Interfund transfers are the flow of assets without equivalent flow of assets in return and without requirement for repayment.

**OPERATING TRANSFERS**

1. A transfer from a governmental fund type to a proprietary fund type that serves as a subsidy for the operations of the proprietary fund type.
2. Transfers from a proprietary fund type to a governmental fund type that serves as a resource for governmental fund operations.

3. Transfers can also occur within a category of funds. For example, the General Fund may transfer funds to a School Activity Fund.

**Other Financing Sources**

Interfund transfers constitute revenues, expenditures, and/or expenses to individual funds, but such amounts are not revenues, expenditures, and/or expenses to the reporting entity. Therefore, for governmental fund type operating statements at the fund reporting level, interfund transfers are classified as "other financing sources (uses)" as follows:

- Excess of revenues over expenditures: $67,825

**Other Financing Sources**

| Transfers in | 25,464 |
| Transfers out | (18,858) |

Total other financing sources (uses): $6,606

- Excess of revenues and other financing sources over expenditures and other financing uses: $74,431

Fund balance, beginning of year: $242,118

Fund balance, end of year: $316,549

**Transfers in Proprietary Funds**

LUAs report transfers in proprietary funds at the fund reporting level in a separate subsection before net income on the operating statement as follows:

- Net income before transfers: $21,110
- Transfers in: 28,007
- Transfers out: (31,872)
- Net transfers: (3,865)
- Net income: 17,245
- Net position, beginning of year: $207,557
- Net position, end of year: $224,802
As indicated above, it is recommended that LUAs report transfers at gross transfers in and transfers out, rather than netting the transfers. Transfers in and transfers out have the same effect on LUA’s fund balances/net position as revenues and expenditures. These transfers are netted on the prepared financial statements when the transfers are between funds that are consolidated into one Major Opinion Unit on the prepared financial statements presented for CAFR or Audit purposes.

**INTERFUND REIMBURSEMENTS**

Reimbursements are interfund transactions that constitute reimbursement of a fund for expenditures or expenses initially made from it that are properly applicable to another fund.

They are recorded as:

- Expenditures or expenses of the reimbursing fund, and
- Reductions of the expenditure or expense originally charged in the fund that is reimbursed.

A transaction would be reported as a reimbursement when:

- An accounting error has been made (e.g., an expenditure was charged to an incorrect fund)
- When a single fund, usually the general fund, pays an invoice or payroll for other funds (i.e., as a convenience), and then charges back the expenditure/expense to the appropriate individual fund where the cost should be reported.

The caption “reimbursements” never should appear as an account caption on an operating statement.

**SUMMARY**

1. LUAs must repay interfund loans.

2. Transfers are interfund transactions that are permanent reallocations of resources and the LUA will not repay them.

3. Reciprocal interfund activity is most commonly found within internal service fund transactions.

4. Reimbursements are never visible on the operating statements as they are offset against the expenses/expenditures on the operating statements.