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**Statement of
Position**

77-2

on

**Accounting for Interfund
Transfers of State and
Local Governmental Units**

September 1, 1977

**Proposal to Financial Accounting Standards Board
to Amend AICPA Industry Audit Guide on
Audits of State and Local Governmental Units**

**Issued by
Accounting Standards Division**

**American Institute of
Certified Public Accountants**

AICPA

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NOTES

The American Institute of Certified Public Accountants has issued a series of industry-oriented audit guides that present recommendations on auditing procedures and auditors' reports and in some instances on accounting principles, and a series of accounting guides that present recommendations on accounting principles. Based on experience in the application of these guides, AICPA task forces, subcommittees, or committees may from time to time conclude that it is desirable to change a guide. A statement of position is used to revise or clarify certain of the recommendations in the guide to which it relates. A statement of position represents the considered judgment of the responsible AICPA task force, subcommittee, or committee.

To the extent that a statement of position is concerned with auditing procedures and auditors' reports, its degree of authority is the same as that of the audit guide to which it relates. As to such matters, members should be aware that they may be called upon to justify departures from the recommendations of the committee.

To the extent that a statement of position relates to standards of financial accounting or reporting (accounting principles), the recommendations of the committee are subject to ultimate disposition by the Financial Accounting Standards Board. The recommendations are made for the purpose of urging the FASB to promulgate standards that the subcommittee believes would be in the public interest.

September 1, 1977

Marshall S. Armstrong, CPA
Chairman
Financial Accounting Standards Board
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Armstrong:

The accompanying statement of position, prepared by the AICPA State and Local Government Accounting Committee, proposes amendments to the AICPA Industry Audit Guide on Audits of State and Local Governmental Units. The statement of position will amend part of chapter 2 of the guide which deals with interfund transfers of state and local governmental units.

Members of the committee will be glad to meet with you or your representatives to discuss this proposal. The committee would also appreciate being advised as to the board's proposed action on its recommendations.

Sincerely yours,

Frank S. Belluomini

Frank S. Belluomini, Chairman
State and Local Government
Accounting Committee

cc: Securities and Exchange Commission

Accounting for Interfund Transfers of State and Local Governmental Units

Background Information

Chapter 2 of the AICPA Industry Audit Guide, *Audits of State and Local Governmental Units*, includes accounting guidelines for four categories of interfund transfers. The first category comprises transactions that would be treated as revenues or expenditures had they been conducted with outsiders. These transfers are accounted for as revenues of the recipient fund and expenditures of the disbursing fund. The second category comprises reimbursements of expenditures made by one fund for another. The reimbursement reduces the expenditures of the recipient fund. The third category comprises recurring annual transfers between two or more budgetary funds for shifting resources from a fund legally required to receive revenue to a fund authorized to expend the revenue. These transfers are shown as separate items in each fund's statement of revenues and expenditures or equivalent financial statement. The fourth category comprises nonrecurring transfers between funds that are analogous to capital transactions and that represent a transfer of equity of the funds involved. These transfers are treated as direct additions to or deductions from the fund balances.

After publication of the guide, questions arose concerning which category covers those transfers between a general or special revenue fund and an enterprise fund that subsidize the operations of the recipient fund. Such transfers are similar to those covered by the third category. The guide limits the third category to budgetary funds, and to recurring transfers; however, the transfers in question involve enterprise funds and may or may not recur.

The Committee on State and Local Government Accounting believes that the third category should include transfers between funds other than budgetary funds, particularly transfers between a general or special revenue fund and an enterprise fund. The committee also believes that the category should not be restricted to recurring annual transfers.

Recommendation

The committee believes that *Audits of State and Local Governmental Units* should be amended by replacing paragraph 3, page 11, with the following paragraph:

3. The third category includes all transfers except those covered in categories 1 and 2, above, and those representing nonrecurring transfers of equity (category 4, below). Typically these represent legally authorized transfers from a fund receiving revenue to a fund that will use the amount transferred. Some examples are as follows:
 - a. Annual transfers from a state's general fund to the state's school aid fund.
 - b. Budgeted transfers from the general fund to a capital projects fund. Expenditure from the capital projects fund of the transferred monies may occur in the year of transfer or in subsequent years.
 - c. Transfers from the general fund or a special revenue fund to an enterprise fund that serves as a subsidy for the operations of the enterprise.
 - d. Transfers from an enterprise fund, other than payments in lieu of taxes, to the general fund that serve as a resource for general fund expenditures.

The transfers received and made should appear as separate items in each fund's statement of revenue, expenditures, and transfers or equivalent financial statement. (See "Illustrative Forms of Certain Financial Statements and Supplemental Schedules of Governmental Units," example 5, p. 103.) For enterprise funds, such transfers should appear on the income statement after net operating income or loss.

Accounting Standards Division

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Accounting Standards

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