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ACCOUNTING FOR INTERFUND TRANSFERS
OF STATE AND LOCAL GOVERNMENTAL UNITS

A Proposed Recommendation to the
Financial Accounting Standards Board

EXPOSURE DRAFT

This exposure draft has been prepared for public comment by the Committee on State and Local Government Accounting of the American Institute of Certified Public Accountants. It has been distributed to Members of Technical Executive Committees of the AICPA; State Society Presidents and Executive Directors; Chairmen of State Society Committees on Accounting Practices; and certain organizations outside the accounting profession. Copies are available to interested persons and organizations upon request.

Comments should be sent, in time to arrive not later than March 15, 1977 to —

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File Reference 3460

AUDITS OF STATE AND LOCAL GOVERNMENTAL UNITS 1

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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 includes 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 includes reimbursements of expenditures made by one fund for another. The reimbursement reduces the expenditures of the recipient fund. The third category includes recurring annual transfers between two or more budgetary funds and shifts 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 includes nonrecurring transfers between funds that are analogous to capital transactions and represent a transfer of equity of the funds involved. These transfers are treated as direct additions to or deductions from the fund balances of the respective funds. 4
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After publication of the Guide, questions arose as to which category covers transfers that are between a general or special revenue fund and an enterprise fund and that subsidize the 23
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operations of the recipient fund. Such transfers are similar to those covered by the third category. However, the Guide limits the third category to budgetary funds and enterprise funds are not budgetary funds. Also, the third category is limited to recurring transfers and the transfers in question may or may not be recurring in nature.

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. Also, the Committee 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 deleting the paragraph captioned "3" on page 11 and inserting the following paragraph in its place:

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 which 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. 1
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- (b) Budgeted transfers from the general fund to a capital projects fund. Expenditure from the capital projects fund of the monies transferred may occur in the year of transfer or in subsequent years. 3
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- (c) Transfers from the general fund or a special revenue fund to an enterprise fund that serve as a subsidy for the operations of the enterprise. 8
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- (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. 12
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The transfers received and the transfers 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. 16
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