# Accounting for Interfund Transactions

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## Governmental Accounting Recap

- Fund Types:
  - Governmental
  - Proprietary
  - Fiduciary
- Each fund is a self-balancing set of accounts.

**Assets – Liabilities = Fund Balance (Net Assets)**

- The Governmental Accounting Standards Board (GASB) promulgates financial accounting and reporting standards.

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# Interfund Transactions

- GASB 1800.102 breaks down interfund transactions into four categories (all applicable in NYS):
  - – Loans (interfund advances)
  - – Interfund Services Provided and Used (business-like transactions)
  - – Reimbursements
  - – Transfers (operating)





# Loans (Interfund Advances)

- Referred in Law as interfund advances.
- Treated as balance sheet transactions.
  - – Uses the Due to/from Other Funds account codes.
    - 390 Due from Other Funds (Asset)
    - 691 Due to Other Funds (Liability)
  - – No revenue/expenditure recognition except for interest earned and paid (budget modifications necessary).
- Two applicable legal criteria could apply:
  - – General Municipal Law (GML), §9-a
  - – Local Finance Law (LFL), §165.10

# Loans (Interfund Advances)

- General Municipal Law (GML), §9-a:
  - Authorized by the governing board (board resolution).
    - Resolution should identify the underlying cause for the cash advance, and address how to repay (**secured by future revenue stream**).
  - Repaid within the fiscal year advanced.
  - Interest charged for advances to differing tax base.
- Financial Implications:
  - Loans can be indicators of cash flow concerns.
  - May indicate unsustainable tax or user rate structures for operations.

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# Loans (Interfund Advances)

- Local Finance Law (LFL), §165.10:
  - Authorized by the governing board (board resolution).
  - Permits operating funds to loan money to the Capital Projects Fund (H Fund) if bonds, capital notes or urban renewal notes have been authorized.
  - Repayment made when issuance proceeds arrive, or the sale of bond anticipation notes issued in anticipation of the sale of such bonds (**secured by future revenue stream**).
- Financial Implications:
  - Operating funds must determine funds are not immediately required for operations (consider timing of repayment).
  - Temporary advances to a capital project can lead to fiscal stress when left unchecked (repayment not made when debt issued).

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# Loans (Interfund Advances)

## Example: When established

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A391 Due from Other Funds | | $25,000 | |
| A200 Cash | | | $25,000 |
| **To record General Fund loan to Water Fund.** | | | |

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| FX200 Cash | | $25,000 | |
| FX630 Due to Other Funds | | | $25,000 |
| **To record Water Fund receipt of loan.** | | | |

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# Loans (Interfund Advances)

## Example: When repaid

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| FX630 Due to Other Funds | | $25,000 | |
| FX200 Cash | | | $25,000 |
| **To record repayment of the advance in the Water Fund.** | | | |

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A200 Cash | | $25,000 | |
| A391 Due from Other Funds | | | $25,000 |
| **To record receipt of repayment in the General Fund.** | | | |

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# Loans (Interfund Advances)

## Example: When repaid with interest

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| FX630 Due to Other Funds | | $25,000 | |
| FX522 Expenditures* | | $1,000 | |
| FX9795.7 Interfund Loans | $1,000 | | |
| FX200 Cash | | | $26,000 |
| **To record repayment to the General Fund for the advance to the Water Fund. *Budget modification may be necessary.** | | | |

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A200 Cash | | $26,000 | |
| A391 Due from Other Funds | | | $25,000 |
| A980 Revenues | | | $1,000 |
| A2401 Interest Earnings | $1,000 | | |
| **To record receipt of the repayment from the Water Fund.** | | | |

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# Interfund Services Provided and Used

- Transactions that would be accounted for as revenues or expenditures/expenses if they involved a party external to the government (business-like transactions).
- Accounting will include revenue/expenditure recognition.
  - Operating fund providing the service will use billed receivables (invoices) and recognize the revenue for services rendered.
  - Invoiced fund will recognize expenditures/expenses for the service provided.
  - Ensure budgeting is appropriate for activities in both funds; interfund revenues (providing fund) and appropriations (receiving fund).
- Financial Implications:
  - Examine the opportunity costs and workforce availability.
    - Are current operational plans being deferred due to outside scope work?

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# Interfund Services Provided and Used

**Example: Assume the DPW (General Fund) is billing the Water Fund for repairing a water line. Budget amendments must be done prior to any operational activity (ensure available appropriations).**

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| FX522 Expenditures | | $10,000 | |
| FX8340.4 Water – Contractual | $10,000 | | |
| FX200 Cash | | | $10,000 |
| **To record payment for services provided by the department of public works for the water line.** | | | |

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A200 Cash | | $10,000 | |
| A980 Revenues | | | $10,000 |
| A2801 Interfund Revenues | $10,000 | | |
| **To record payment received by the Department of Public Works for services rendered.** | | | |

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# Reimbursements

- An expenditure/expense initially made in one fund, but properly attributable to another.
  - For example, invoices that contain charges for multiple funds but paid out through one fund, e.g., utility bills.
- Ensure budgets for each fund include appropriations for their shares.
- Financial Implications:
  - Failure to reimburse may cause cash flow issues and/or expenditure overstatement.

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# Reimbursements

**Example: Assume that the General Fund paid an entire bill for utilities, a portion of which will be reimbursed by the Water Fund.**

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A522 Expenditures | | $5,000 | |
| A1620.4 Operation of Plant | $5,000 | | |
| A200 Cash | | | $5,000 |
| **To record payment of utility bill (total invoice).** | | | |



# Reimbursements

**Example: Reimbursement is made, and expenditures are properly recognized.**

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A200 Cash | | $2,500 | |
| A522 Expenditures | | | $2,500 |
| A1620.4 Operation of Plant | $2,500 | | |
| **To record reimbursement from the Water Fund. [Note: Credit to expenditure.]** | | | |

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| FX522 Expenditures | | $2,500 | |
| FX8310.4 Water Administration | $2,500 | | |
| FX200 Cash | | | $2,500 |
| **To record Water Fund portion of the bill.** | | | |

# Transfers (Operating)

- Transfers are a one-way street to provide financial relief to another fund (subsidy) when **legally** allowed.
- Transfers require appropriations (out), and receiving funds should budget for the estimated revenue (in).
- Transfers should have documented support such as support for funding a capital project (budget), or annual transfers from the Debt Service Fund (V) to operating funds to support debt payments.
  - Expenditure account codes (out):
    - 9901.9 – Interfund Transfers
    - 9950.9 – Interfund Transfers to Capital Projects
  - Revenue account codes (in):
    - 5031 – Interfund Transfers
    - 5050 – Interfund Transfers for Debt Service (Debt Service Fund – V Fund)
- Financial Implications:
  - Transfers that may not be legally supported.
  - Recurring transfers may cause cash flow issues.

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# Transfers (Operating)

**Example: Assume that the General Fund annually provides a subsidy for Library Fund Operations (maintained by the Town).**

| Account and Description | Subsidiary | Debit | Credit |
|---|---|---|---|
| A522 Expenditures | | $1,000 | |
| A9901.9 Transfers to Other Funds | $1,000 | | |
| A200 Cash | | | $1,000 |
| **Record payment of annual subsidy by the General Fund to the Library Fund.** | | | |

| Account and Description | Subsidiary | Debit | Credit |
|---|---|---|---|
| L200 Cash | | $1,000 | |
| L980 Revenues | | | $1,000 |
| L5031 Interfund Transfers | $1,000 | | |
| **Record receipt of annual subsidy by the Library Fund from the General Fund.** | | | |

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# Transfers (Operating)

**Example: Assume a transfer of the residual fund balance (equity) from a completed capital project to the General Fund (no debt issued, funded wholly by operating transfers). If originated from a legal reserve, restriction may still be present upon return to operating fund.**

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| H522 Expenditures | | $10,000 | |
| H9901.9 Transfers to Other Funds | $10,000 | | |
| H200 Cash | | | $10,000 |
| **To record the transfer of the residual fund balance (equity) from a completed capital project (no debt issued). [Note: Review capital project closing entries.]** | | | |

| Account and Explanation | Subsidiary | Debit | Credit |
|---|---|---|---|
| A200 Cash | | $10,000 | |
| A980 Revenues | | | $10,000 |
| A5031 Interfund Transfers | $10,000 | | |
| **To record receipt of the residual balance in the General Fund.** | | | |





# Questions?

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