



OFFICE OF THE
STATE AUDITOR

Auditor Alert – 2014-01b

Subject: Enterprise Fund Transfers, Reimbursements, Loans, and Services

Date: May 8, 2014 [Updated May 22, 2018]

Background

(GASB Codification 1300.101)

The treatment of enterprise fund transfers, reimbursements, loans, and services is subject to the following two provisions: **(1) *Utah Code* and (2) *Accounting standards***. Therefore, requirements not specifically stated in *Utah Code* but required by accounting standards must be followed.

Unlike a private business, which is accounted for as a single entity and has an accounting system designed to measure profitability, governmental accounting systems are designed to measure **accountability**. To measure accountability, a governmental unit is accounted for through several separate funds. "A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, ... segregated for the purpose of carrying on specific activities for attaining certain objectives in accordance with **regulations, restrictions, or limitations**." Therefore, "a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently." (GASB Codification 1300.101)

An enterprise fund is a separate distinct fiscal entity designed to account for the restricted activity of the fund. The restriction imposed on enterprise fund proceeds is created through an implied agreement with rate payers when the government imposes a fee. The implied agreement is that the government will use the fee for enterprise fund activities and nothing else.

Accounting Treatment

In order to complete accounting entries for interfund transfers, reimbursements, loans, or services, the amount/value of the goods or services provided to another fund must be determined. The value of the services provided by a utility enterprise fund to another fund should be estimated or calculated at the same rate as other similar customers of the utility. Conversely, the amount of services provided by the general fund to oversee the utility enterprise funds (HR functions, accounting, legal, etc.), should also be based on reasonable estimates/allocations of those costs. Both the costs of the services provided by the utility enterprise fund to other funds as well as the overhead type costs incurred to oversee the utility enterprise fund should be recorded, even if cash was not exchanged between funds.

"Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions" and includes interfund transfers and interfund reimbursements (GASB Codification 1800.102).

- ***Interfund transfers for services provided*** – flows of assets (such as cash, goods or services) without equivalent flows of assets in return and without a requirement for repayment. For example, these transfers include water, electricity, or garbage **services provided** by a utility enterprise fund for general government fund activities **without payment of cash or a requirement for payment** by the utility enterprise fund.

General Fund

Utility Expense	\$xx,xxx	
Other Financing Sources Transfer		\$xx,xxx

Enterprise Fund

Other Nonoperating Transfer Out	\$xx,xxx	
Charges for Services		\$xx,xxx

- **Interfund subsidy transfers** examples also include transfers of cash from a utility enterprise fund to the general fund or other funds for activities unrelated to the utility enterprise fund.

General Fund

Cash	\$xx,xxx	
Other Financing Sources Transfer		\$xx,xxx

Enterprise Fund

Other Non-Operating Transfer Out	\$xx,xxx	
Cash		\$xx,xxx

- **Interfund reimbursements** – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. For example, the general fund may provide accounting, payroll, or human resource services to an enterprise fund for which the enterprise fund reimburses the general fund. In these instances, **cash is actually transferred between funds or is required to be paid**. Note that for interfund reimbursements, neither fund recognizes revenue.

General Fund

Cash or Due from Other Funds – Enterprise Fund	\$xx,xxx	
Expenditure		\$xx,xxx

Enterprise Fund

Expense	\$xx,xxx	
Cash or Due to Other Funds – General Fund		\$xx,xxx

The key difference between *interfund reimbursements* described above and *interfund services* described below is the general fund is not in the business of providing these types of services to customers outside the primary government.

“Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions” and includes interfund loans and interfund services provided and used (GASB Codification 1800.102.a).

- **Interfund services provided and used** – sales and purchases of goods and services between funds for a price approximating their external exchange value-- **cash is actually transferred between funds or is required to be paid for the services or goods provided**. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds. For example, the enterprise fund may provide water, electricity, or garbage services for city offices or parks accounted for in the general fund.

General Fund

Utility Expense	\$xx,xxx	
Cash or Due to Enterprise fund		\$xx,xxx

Enterprise Fund

Cash or Due from General Fund	\$xx,xxx	
Charges for Services		\$xx,xxx

- **Interfund loans** – amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds.

Materiality

All accounting standards are subject to the principle of materiality. Therefore, if a government determines that amounts related to financial reporting requirements are not material, then the requirement is not applicable. However, the determination of materiality must be based upon an evaluation/estimate of relevant factors. A simple guess or “gut feeling” is not a sufficient evaluation.

Implementation

Based on the accounting guidance above and state compliance issues noted below, local government entities should perform the following:

1. **Interfund Transfers** – For services provided by the utility enterprise fund (water, electricity, etc.) to other funds where cash was not exchanged for payment of those services:
 - a. Use a reasonable calculation or estimation to determine the amount of the services provided. The rates used should be the same rates charged to similar customers of the utility.
 - b. If the amount was material, record the amount of the services provided as an interfund transfer.
 - c. Include any interfund transfers in an original budget or in a subsequent budget amendment to be approved by the governing body for the year in which the transfer is to take place.
2. **Subsidy Transfers – Public Notice and Hearing Requirements**
(Utah Code 10-5-107.5, 10-6-135.5, 11-13-524(3), 17B-1-629(3), 17-36-32(3))
 - a. *For counties, interlocals and districts:* Subsidy transfers in an original budget or in a subsequent budget amendment requires a special notice and a public hearing separate from any other public hearing. For counties, the notice must be distributed as a written and separate from the customers’ utility bill.
 - b. *For municipalities:* Subsidy transfers in an original budget or in a subsequent budget amendment requires a special notice and a separate public hearing. Municipalities must also publish specific enterprise fund information and accounting data related to the transfer.
3. **Interfund Reimbursements**

Interfund reimbursements should be included in the original budget or in subsequent budget amendments of the enterprise fund. For services the general fund provides to the enterprise fund, the reimbursement amount should be based on a reasonable methodology.
4. **Interfund Services Provided**

The entity must include expenses associated with interfund services provided in an original budget or subsequent budget amendment approved by the governing body for the fiscal year and comply with notice and hearing requirements for adopting or amending the budget.
5. **Interfund Loans – For utility enterprise funds loaned to another fund:**
(Utah Code 10-5-120, 10-6-132, 17B-1-626, 17-36-30)

For loans issued before May 13, 2014:

- a. Rates and repayment terms should be established.
- b. Payments should be made according to established terms.
- c. The loan should be reflected in the fund financial statements as: (1) a reduction in cash in the enterprise fund and an increase in cash in the fund the cash is being loaned to, and (2) an interfund loan receivable in the enterprise fund and an interfund loan payable in the fund receiving the cash.
- d. If repayment is not expected within a reasonable period of time, the transfer of funds should not be considered a loan and instead be recorded as an interfund subsidy transfer.

For loans issued on or after May 13, 2014:

[Note – not applicable to loans from the general fund to any other fund or short-term advances from a cash and investment pool to individual funds that are repaid by the end of the fiscal year.]

- a. The loan must be in writing and contain the following terms and conditions:
 - Effective date of the loan.
 - Name of the fund loaning the money.
 - Name of the fund receiving the money.
 - Amount of the loan.
 - Term of and repayment schedule of the loan (not to exceed 10 years).
 - Interest rate of the loan (if less than one year, the interest rate cannot be less than the rate offered by the PTIF, if greater than one year the rate cannot be less than the greater of the PTIF rate or the rate of a US Treasury not of a comparable term).
 - Method of calculating interest applicable to the loan.
 - Procedures for applying interest and paying interest.
- b. The governing body must hold a public hearing and provide written notice within at least 7 days of the hearing regarding the:
 - Date, time, and place of the hearing,
 - Purpose of the hearing, and
 - The proposed terms and conditions of the interfund loan.

Notice and hearing requirements outlined in b. above are satisfied if the loan is included in an original or subsequently amended budget.

- c. The governing body must authorize the loan by ordinance or resolution at a public meeting.