SUBJECT:

The Accounting Structure

PURPOSE:

To illustrate the means of identifying and recording accounting transactions.

PRINCIPLES:

Each county fund can use the Uniform Chart of Accounts as the medium to record all transactions. To aid in record keeping and effective presentation of financial information, general ledger accounts are classified into two groups:

1. Balance Sheet Accounts--assets, liabilities, and fund equity.

2. Budgetary (Operating) Accounts--revenues and expenditures.

In governmental accounting, budgetary accounts are kept in the same accounting records as asset, liability, and fund equity accounts. They are used to record fund operations only for a single accounting period (one year) and are closed at the end of the period.

KEY DEFINITIONS:

Revenues increase the assets owned by a county, unlike cash receipts, which may or may not constitute revenue.

For example, a property tax receipt for taxes owed to the county and other taxing districts is part revenue to the county, but also include amounts collected for the other taxing districts and, therefore, are not revenues of the county. Likewise, the proceeds of a sale of an investment are not revenue since one asset (cash) is increased while another asset (investment) is reduced.

Expenditures are incurred to pay for operations, maintenance, or matured debt of any given county fund. Expenditures represent decreases in assets and a decrease in the fund balance. On a modified accrual basis, an expenditure, rather than decreasing an asset (cash), may increase a fund liability (accounts payable).

Recording Transactions Affecting the County:

All activities of the county which affect the amount of or relationship between the assets, liabilities, and fund equity can be reduced to entries in the county's financial records (purchases, tax collections, borrowing, investments, etc.). Each transaction will have a dual effect on the county records but not change the fundamental accounting equation:

ASSETS = LIABILITIES + FUND EQUITY

Purchases only change the types of assets; they do not just increase one. Tax collections affect the balance sheet accounts and budgetary accounts; a new asset is received (a balance sheet account) and revenue is also received (a budgetary account). Tax collections thus increase county assets and fund equity equally.

The fundamental accounting equation for governmental funds can now be expanded to illustrate how every possible transaction that affects a fund can be recorded:

ASSETS = LIABILITIES + FUND EQUITY + REVENUES - EXPENDITURES

To use this model and track the dual effect of each transaction, the amounts of each type of asset, liability, and fund equity (increases and decreases) must be systematically recorded.

This is done using the Uniform Chart of Accounts and a standardized, controlled recording method. This can be illustrated by using separate "T" accounts and conventional "debits" and "credits" (debits and credits are often abbreviated as "dr" and "cr").

"T" Accounts:

A "T" account is the format used to segregate increases and decreases in each account balance as follows:

Property Taxes (Account Title)

debit	credit
(dr)	(cr)

Each transaction is expressed in terms of its debit or credit effect on a given account. If an amount is entered on the left side of the "T," the account is "debited;" if entered on the right, the account is "credited." The effect of each entry (or transaction) is expressed in terms of debits or credits (not left and right or increases and decreases in the account). The "account balance" is the difference between the total debits and total credits.

Balance Sheet Accounts:

If the accounting model is overlaid into the "T" account structure, the assets will appear on the left (debit) side and the liabilities and fund equity are recorded on the right (credit) side.

Conversely, decreases in assets are recorded on the right or credit side, and decreases in liabilities and fund equity are recorded on the left or debit side. Asset accounts typically have a debit balance; and liability accounts and fund equity typically have a credit balance. The accounting equation always remains in balance and debits always equal credits.

Budgetary (Operating) Accounts:

The concept and reasoning behind increasing assets with debits and increasing liabilities and fund equity with credits is fairly straightforward. Sometimes confusion exists concerning why expenditures are increased by debits and revenue accounts are increased by credits. There is sound reasoning for this too.

The fund balance is on the right side of the accounting equation and it normally has a credit balance. Increases to the fund balance (via credits) or decreases (via debits) are seldom made directly. They are usually recorded in other accounts which describe the nature of the transaction. The fund balance is determined as follows:

Opening credit balance in the fund balance account

+ Revenue Accounts	(credit balances increasing equity)
- Expenditures	(debit balances decreasing equity)
Ending Fund Balance	(equity)

To summarize, the five basic classifications of accounts are affected by debits and credits as follows:

	Effect of	
Account Classification	Debits	Credits
Assets	+	-
Liabilities	-	+
Fund Equity	-	+
Revenue	-	+
Expenditures	+	-

These relationships are critical to an understanding of double-entry accounting as used in this manual.

Sample Transactions:

The initial step in recording a given transaction is to identify its dual effect. The following are samples of how individual transactions would be analyzed for recording in individual accounts of a county's general fund.

1. Joe Smith pays a fine of $50.

Cash		Revenues - Fines	
Debit	Credit	Debit	Credit
$50			$50

Explanation: A receipt of cash in payment of a fine means revenue for the county. Accordingly, the accounts reflect the increase in the amount of the asset "Cash" and an equal increase in fine revenues received. There is a debit and a credit; therefore, the accounting equation remains in balance.

2. The county buys supplies for $25.

Expenditures - Supplies		Cash	
Debit	Credit	Debit	Credit
$25			$25

Explanation: The purchase of supplies is an expenditure which also reduces the assets of the county by an equal amount.

3. The county invests $5,000.

Investments		Cash	
Debit	Credit	Debit	Credit
$5,000			$5,000

Explanation: Investments change one asset (cash) into another kind of asset (investments).

Basis of Accounting:

The sample transactions represent "cash basis" accounting. It records expenditures when cash is actually paid out and recognizes revenues when received.

We have used the cash basis for our examples because of its simplicity and its similarity to the accounting practices now followed in many counties. This does not imply, however, that the cash basis is an entirely satisfactory approach. A major problem with it is that it ignores the existence of other resources which are available or being used by the county, which should be accounted for to more accurately present the true picture of the county's financial position.

To illustrate the differences, assume the county has just received an invoice in the amount of $500 for architectural services it has purchased. The invoice states that payment is due in 30 days. Using the cash basis, the transaction will not be recorded in the accounting records until the date the invoice is actually paid, up to 30 days later. Consequently, any financial reports issued by the county prior to the payment would not reflect that $500 of services were performed, nor would they show the $500 claim against the county for payment. Thus, cash basis accounting does present certain problems. Conversely, the accrual and modified accrual approaches more accurately reflect the financial position of a county at any point in time.

Under a strict accrual basis, which generally is the basis of accounting in business entities or enterprise, internal service and fiduciary funds, transactions are recorded in the accounting records when they arise rather than when cash is paid or received. Therefore, in the example above, the purchase of services and the obligation created would have been recorded as soon as the actual transaction took place. That is, the expense would have been recognized when the services were invoiced and received, and a liability (an accounts payable) would have been established to indicate that there was a $500 obligation due.

SUBJECT:

Accounting Concepts Regulating the Accounting Process

PURPOSE:

To describe the accounting concepts which allow the accounting structure to operate and provide for accurate accounting and reporting.

PRINCIPLES:

The major features to be incorporated in any county accounting system are:

N Appropriate authorizations and records

N Sufficient documentation

N Internal control

N Consistency

N Defined accounting periods

N A disciplined accounting process

These features (described in more detail below) should be present in smaller organizations with manual accounting systems and few reporting requirements and in more sophisticated computerized counties with extensive detail reporting requirements.

REQUIREMENTS:

Appropriate Authorizations and Records--County accounting systems should provide authorization by more than one county official. Transactions can be better verified when accountability is shared and a series of authorizations are made, depending upon the significance of the transaction. Systems should also provide for adequate accumulation and recording of authorized transactions so that future verification is also possible. An accounting system that accumulates and adequately records the dual effect of each transaction will aid in this process, as will competent and adequate staffing, filing systems, and permanent record storage areas.

Sufficient Documentation--Adequate records and documents to support the accounting treatment for a particular transaction are important. Documentation, whether paper, electronic, or other media, must be valid and relevant. If authorization and record-keeping systems are adequate, they help to ensure that sufficient documentation is available.

The desired procedures and types of documentation are described in Section 4230, entitled Accounting System Records.

Internal Control--The accounting process must have adequate systems for efficient physical control and processing of county assets, maintenance of accurate records, and data files. Internal control ensures safeguarding of assets and reduces the problems associated with error detection, fraud, or embezzlement. In many organizations, nonsupervisory employees involved with these duties are controlled by the nature of their duties and work flow. In general, proper control exists if one employee's work is "automatically verified" by another employee in the normal course of work and without duplicating efforts. For example, an adequate bank reconciliation procedure can also disclose problems with vouchers payable or payroll routines, early or late payments, missing signatures, voided checks, or skips in a pre-numbered series.

Sound internal control must include five basic components:

1. Control environment,

2. Risk assessment,

3. Control activities,

4. Information and communication, and

5. Monitoring.

For more discussion of these components, see Section 3130.

The five components of internal control systems are necessary to reasonably ensure that the following objectives are achieved:

- Assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

- Transactions are recorded properly so that reliable financial and statistical reports can be prepared and accountability for assets is maintained.

- The County is in compliance with applicable laws.

The purpose of this manual is not to prescribe a system on internal control for all counties (this will vary depending upon county policies and organizational differences), but to identify the internal control concepts and encourage counties to install practical controls.

Consistency--For comparability, usefulness, and meaningful evaluation, county accounting information must be recorded and reported on a consistent basis. For this reason, the procedures manual and Uniform Chart of Accounts were prepared using governmental accounting principles generally accepted in the United States of America. By following these standards, counties will be conforming to the required procedures and achieving the objective of consistency.

Defined Accounting Periods--Like businesses, counties are intended to operate indefinitely. Organizational progress cannot be accurately determined until the sum of the activities performed are terminated and measured at desired intervals. Therefore, while annual financial reports are required for accounting purposes, more frequent financial status reporting is desirable.

A Disciplined Accounting Process--For introduction and clarity, the accounting process is shown in diagram form on page 6 of this section. It is desirable to follow these routines--the solid lines indicate the daily or weekly cycles, and the dotted lines indicate the monthly or annual cycles (accounting periods).

The activities described below and in the diagram are common to all sound accounting systems. They are described here to show typical county transactions and their interrelationships.

1. Recognize that a transaction has occurred.

   Usually this step is self-evident; however, the responsible finance officer must be alert to subtle changes in accounts. For example, accruals of interest on savings accounts and accrual of uncollected taxes at year-end must be recorded.

2. Prepare adequate source documents.

   “Accounting trails” (the processing from original entry through the final recording in a financial statement) must be provided. Original source documents are important objective evidence that each transaction has occurred. They are of particular importance in a computerized accounting system. Typical documents include receipts, checks, and journal entry supporting documents.

3. Validate the transaction.

   Verification that the transaction was appropriately recorded in the source document is a basic audit function for the county auditor or finance officer.

4. Journalize the transaction and file the source document.

   The transaction should be entered in the appropriate journal or “books of original entry”--the first record posted. Generally, transactions are recorded chronologically, listed debit and credit entries simultaneously. In more sophisticated accounting systems, there may be several journals to post (or equivalent computerized files posted) before the source document is properly filed to provide an accounting trail.

5. Post the general and subsidiary ledgers.

   The posting process transfers data from journals into the ledgers. In the ledger, transactions are classified according to the accounts. The “cash” account, for example, summarizes all changes in cash, while a revenue account, such as “property taxes current,” performs a similar function for tax levy revenue. Ledgers are the final place where transactions are recorded.

Most counties which maintain ledgers will have at least one group of accounts to summarize all transactions for a particular fund. Where detail is needed for specific purposes, subsidiary ledgers can be created to control individual accounts in the general ledger of a fund.

The maintenance of fund ledgers requires significant staff time even when computer assistance is provided. Any system should have sufficient detail to ensure the most practical level of control.

6. Prepare a general ledger trial balance.

This record and its use are described in detail in Section 4230, Accounting System Records.

7. Close books monthly and annually.

All accumulated transactions for a period should be recorded to prepare the required financial statements.

Any adjustments and accruals must also be made after recording the regular entries and proofing them through the trial balance. The finance officer does this by reviewing records and supporting documents to determine what accounts should be adjusted before reporting on operations.

Since adjustments invariably occur, recording them before preparing a financial statement is similar to Step 1 above, recognizing that a relevant accounting transaction has occurred. Uncollected taxes, unpaid vendor invoices, or reductions in prepaid items are examples of likely adjustments. If these adjustments are not recorded, the reporting will not meet the requirements of generally accepted accounting principles (GAAP).

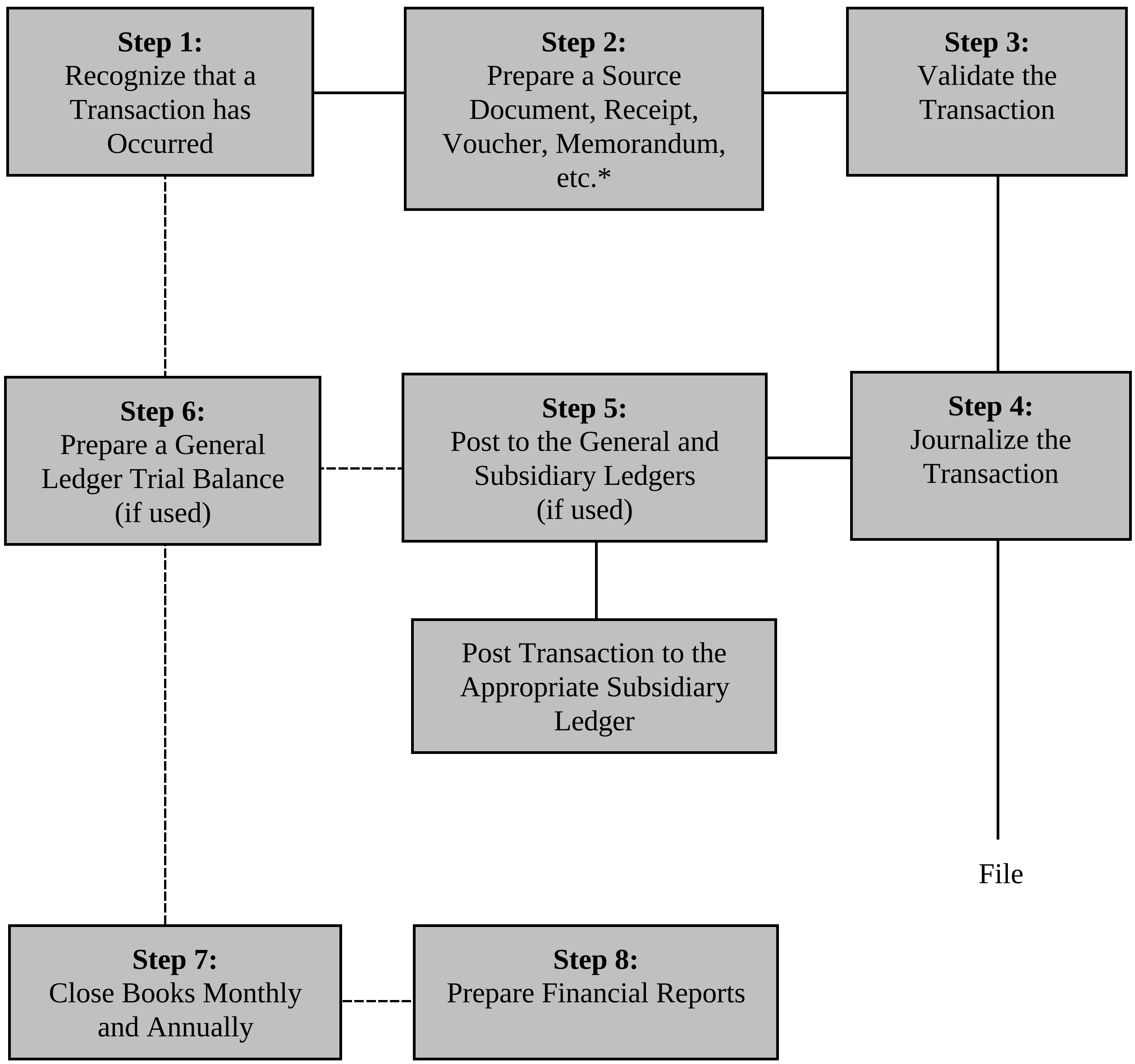
Some counties with adequate staff may be able to prepare monthly reports on a GAAP basis. However, most counties will likely only prepare monthly reports on a cash basis of accounting and prepare these adjusting entries only on an annual basis.

8. Prepare timely financial reports.

The objective of the accounting process is to produce a single set of related reports to promptly and accurately summarize the financial position of a county at one point in time.

These consist of interim reports (monthly, quarterly, and perhaps unique management-oriented reports for special needs), and annual reports. All reporting is intended to provide management and commissioners with documents useful for planning and evaluation. Reports are also used to inform the general public, the investment community, the State of Minnesota, and other interested groups.

THE ACCOUNTING PROCESS



_____________ = Daily or Weekly Cycle
- - - - - - - - - - - = Month-End or Year-End Cycle

*Source document may be in electronic format.

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SUBJECT:

Accounting System Records

PURPOSE:

Described in this section are the components of a model county financial accounting system recommended for normal financial management needs.

OVERVIEW:

Theoretically, only a general ledger is needed to record all financial transactions. In reality, special journals and subsidiary ledgers are needed to reflect the growing complexity of county finances and funds and show increasingly detailed, useful levels of information.

Because every accounting system has limitations, it is important that a county select a system in terms of its own specific needs and capabilities. If all elements of a desirable accounting system are not needed, the system's flexibility should be able to exclude them.

Accordingly, the "minimum" and "desirable" records[1] consist of the following:

- Minimum

  General Journal
  Revenue Journal
  Expenditure Journal

- Desirable

  General Ledger
  Purchase Order Register (Unpaid Vouchers or Encumbrance Journal)

[1] A particular county may have different names for these types of records.

C Budgetary Reports

Revenue Report
Expenditure Report
Receivable or Payable Journals
Capital Assets and Depreciation Ledger

COMPONENTS:

Each of these records and their interrelationships are discussed below:

N General Journal--The primary medium used for all original entries; it indicates the amounts to be debited or credited to the various accounts. This journal is often used to summarize transactions from other specialized journals--recording all transactions not involving cash received or disbursed by the county. With automated accounting systems, receipts and disbursements will typically automatically be interfaced into the general ledger accounts, while a general journal will be used for additional adjusting entries. The following accounting entries may be more easily made in the general journal:

- Opening the books and setting up the beginning balance sheet,
- Recording the annual budget of estimated revenues and appropriations,
- Recording adjusting entries or corrections,
- Recording transfers between accounts or between funds, and
- Closing entries recorded at year-end.

N Revenue (Cash Receipts) Journal--Used to record all cash received by the county. For each cash receipt, the employee receiving the cash should provide a properly authorized receipt to the customer.

N Expenditure (Cash Disbursement) Journal--Used to record all cash disbursed by the county for such purposes as: acquisition of an asset, liquidation of a liability, refund of previously collected revenues, debt retirement, and expenditures/expenses in the current year.

Without exception, all disbursements must be made by issuing properly approved warrant checks or electronic fund transfer drawn on specific county funds. The journal becomes a check register and the means of accounting for cash disbursements.

* * * * *

A fund recap sheet can also be prepared which summarizes receipts, disbursements, and transfers to and from a given fund. It shows the overall effects of the month's transactions on the county's financial position. It can also be the medium for recording deposits in the fund bank accounts and showing changes in the amounts of the funds' resources--either invested or in demand deposit accounts.

N General Ledger--This is a major component of an accounting system which permits recording transactions on a double-entry basis, either in detail or at a summary level. This record is generally supplemented with journals and subledgers; however, the final record of assets, liabilities, revenues, and expenditures/expenses and fund equity will be found in the general ledger.

The general ledger is maintained by fund. General ledger accounts are often control accounts with related subledgers available for details. For this reason, the general ledger accounts must also be balanced with the totals of the various subsidiary account balances at month-end.

A general ledger trial balance should be made for each fund after monthly postings are complete and before financial statements are prepared. A trial balance is a list of all the balances in the ledger accounts at the end of an accounting period. It is a check on the mathematical accuracy of the ledger balances. Since the debit and credit double entry accounting structure requires balancing debits and credits for each transaction, the sum of all debit balances must equal the sum of all credit balances.

Just as separate general ledgers should be maintained for each county fund, separate trial balances should be completed at the end of each accounting period for each general ledger. A trial balance does not indicate the accuracy of the postings, only that account totals are in balance; therefore, periodic testing and verification routines should be performed.

N Purchase Order Register (Encumbrance Journal)--An encumbrance journal is used only by counties employing a purchase order system in their purchasing procedures. A purchase order is written evidence of an order placed with vendors or contractors by the county. Acceptance of a properly authorized and approved purchase order gives the vendor authority to ship the required goods and binds the county for payment upon compliance. Thus, although no cash disbursement is involved in the issuance of the purchase order, a legal liability may have been created by the county. Some counties use an unpaid vouchers or vouchers payable account or journal. The account/journal represents vouchers for claims against the county that have been audited by the county, but not yet approved for payment. The account/journal maintains control over these vouchers until approved for payment.

The purchase order register has two functions. First, it is a register in which purchase orders issued by the county are recorded and monitored. Second, it serves as an encumbrance journal which allows the county to set aside (encumber) certain resources to cover the future obligation to the vendor created by the purchase order. The usefulness and importance of the first function is fairly evident. However, the second function can be of even greater importance in controlling county expenditures and preventing over-expenditure of county appropriations.

N Revenue Report--A subsidiary ledger in which estimated and actual revenues are recorded and monitored in detail. The ledger is used to make the following entries:

- Estimated revenues,
- Actual revenues received during the month by type,
- Actual revenues received year-to-date by type, and
- The remaining unreceived balance for each type of revenue.

A separate ledger sheet should be maintained for each revenue source.

N Appropriation-Expenditure/Expenses Report--A subsidiary ledger in which county appropriations and actual encumbrances and expenditures are recorded and monitored. The ledger is used to make the following entries:

- Appropriations,
- Encumbrances on the appropriations,
- Actual expenditures, and
- The balance of the appropriation available.

A separate ledger sheet should be maintained for each type of expenditure detailed in the appropriation-expenditure ledger. Expenditure/expense accounts should be segregated by department within the fund.

Automated accounting systems have made the preparation of the above reports and journal relatively easy. Computerized accounting application systems allow the generation of a variety of reports in a variety of formats, generally with only the initial data entry required.

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SUBJECT:

Use of Funds

PURPOSE:

To suggest alternative approaches that will allow counties to use the minimum number of funds.

DISCUSSION:

The Standard Procedures section of this manual describes the types of funds that a county must use. They identify how governmental, proprietary, and fiduciary funds differ from each other in terms of the basis of accounting and measurement focus to be used.

However, in many counties, a new fund is set up each time there is a requirement to segregate cash or identify specific interests in a special project (such as a new grant program). This requires that a complete set of self-balancing accounts be established each time a new fund is set up.

With the standard Uniform Chart of Accounts dimensions, practical alternatives are available to counties in lieu of setting up new funds:

1. A dedicated cash account can be set up within an existing fund to account for those projects. This allows separate identification of cash assets.

2. A separate responsibility area within a department dimension can be set up within an existing fund when it is desirable to account separately for the revenues and expenditures of a specific project. This can be done by setting up either a different department number or by using program or service code dimensions within the same department.

3. A third alternative used by some counties is to maintain separate fund accounts during the year, but combine funds with similar activities for financial reporting purposes. With this approach, counties can maintain a minimum number of funds and still segregate certain special projects for accounting purposes.

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SUBJECT:

Classification of Revenues

PURPOSE:

To provide guidance on the classification of revenues for financial reporting.

DISCUSSION:

The new statement of activities, one of the new government-wide financial statements, requires identification of an entity's revenues as either program or general revenues. Governmental Accounting Standards Board (GASB) Statement 34, as revised by GASB Statement 37, provides the guidance necessary to classify these two different types of revenues for the statement of activities. Paragraph 38 of GASB Statement 34 establishes the format for the statement of activities:

> The operations of the reporting government should be presented in a format that reports the net (expense) revenue of its individual functions. Net (expense) revenue is sometimes referred to as the "net cost" of a function or program and represents the total expenses of the function or program less its program revenues--that is, charges or fees and fines that derive directly from the function or program and grants and contributions that are restricted to the function or program. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the government's functions, ultimately arriving at the "change in net assets" for the period.

Paragraph 47 of GASB Statement 34 provides guidance on revenue classifications:

> Programs are financed from essentially four sources:
>
> a. Those who purchase, use, or directly benefit from the goods or services of the program. (This group may extend beyond the boundaries of the reporting government's taxpayers or citizenry or be a subset of it.)

b. Parties outside the reporting government's citizenry. (This group includes other governments and nongovernmental entities or individuals.)

c. The reporting government's taxpayers. (This is all taxpayers, regardless of whether they benefit from a particular program.)

d. The governmental institution itself (for example, through investing).

- Type "a" is always a program revenue.
- Type "b" is a program revenue, if restricted to a specific program or programs.
- Type "c" is always a general revenue, even if restricted to a specific program.
- Type "d" is usually a general revenue.

Guidance on program revenues is provided in paragraphs 48 and 49 of the statement:

> 48. Program revenues derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories[1] of program revenues: (a) charges for services, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. For identifying the function to which a program revenue pertains, the determining factor for charges for services is which function generates[2] the revenue. For grants and contributions, the determining factor is the function to which the revenues are restricted.

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[1]More than one column may be used to display components of a program revenue category. Government may also provide more descriptive headings to better explain the range of program revenues reported therein (for example, operating grants, contributions, and restricted interest).

[2]In some instances, it may be difficult or impractical to identify a specific function that generates a program revenue. For example, in many jurisdictions, fines could be attributed to either a public safety or judicial function. If the function of a program revenue is not clear, governments should adopt a classification policy for assigning those revenues and apply it consistently.

49. Charges for services is the term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided or are otherwise directly affected by the services. Revenues in this category include fees charged for a specific service, such as water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, and building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Fines and forfeitures are also included in this category because they result from direct charges to those who are otherwise directly affected by a program or service, even though they receive no benefit. Payments from other governments for goods or service (for example, when County A reimburses County B for boarding County A's prisoners) also should be reported in this category.

Note: We recommend that only three columns of program revenues be presented: (1) Fees, Charges, Fines, and Other (FCFO); (2) Operating Grants and Contributions (OGC); and Capital Grants and Contributions (CGC). As permitted by GASB Statements 34 and 37, we recommend using the more descriptive heading above rather than the example in GASB Statement 34 of "Charges for services."

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
A-87 monies	Intergovernmental		X			Varies[1]
Ambulance and emergency aid services fees	Charges for services	X				Public Safety
Animal licenses	Licenses and permits	X				Gen. Govt.
Amortization of investment cost	Investment earnings				X	
Amortization of investment cost-restricted investments	Investment earnings		X	X		Varies
Assessor fees	Charges for services	X				Gen. Govt.

[1]Varies means the program revenue could be different for different entities but should reduce the costs of the applicable function(s) reimbursed or department collecting/deriving the revenue.

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
Attached machinery aid	Intergovernmental				X	
Auction proceeds - noncapitalized equipment	Miscellaneous				X	
Auction proceeds - capitalized equipment	Other financing source				X	
Auctioneers license	Licenses and permits	X				Gen. Govt.
Bail	Fines and forfeits	X				Gen. Govt.
Birth certificates	Charges for services	X				Gen. Govt.
Boarding of prisoners	Charges for services	X				Pub. Safety
Booking fees	Charges for services	X				Pub. Safety
Building permits	Licenses and permits	X				Gen. Govt.
Bulletin sales/publication fees	Miscellaneous	X				Varies
Business licenses	Licenses and permits	X				Gen. Govt.
Canteen funds	Miscellaneous	X				Varies
Change in fair value of investments	Investment earnings				X	
Change in fair value of restricted investments	Investment earnings		X	X		Varies
Chemical dependency assessments	Charges for services	X				Health
Child support reimbursement	Miscellaneous	X				Human Services
Central notification system filings	Charges for services	X				Varies
Commodity sales (R&B)	Miscellaneous	X				Highways
Compensation for loss of general capital assets	Other financing source				X	
Conservation tax credit	Intergovernmental				X	
Conservation fees		X				Conserv.

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
Contributions or gifts - not restricted to a particular activity or function	Gifts and contributions				X	
Contributions or gifts - restricted to a particular activity or function	Gifts and contributions		X	X		Varies
Copy fees	Miscellaneous	X				Varies
Criminal Justice aid - Minn. Stat. § 477.0121	Intergovernmental		X			Pub. Safety
Death certificates	Charges for services	X				Gen. Govt.
Deed tax fee (county share)	Tax				X	
Departmental accounts interest	Investment earnings				X	
Disaster credit	Intergovernmental				X	
Disparity reduction aid	Intergovernmental				X	
Domestic abuse assessments	Charges for services	X				Pub. Safety or Gen. Govt.
Drivers license fees	Charges for services	X				Gen. Govt.
Drug test fees	Charges for services	X				Pub. Safety
Drug forfeitures	Fines and forfeitures	X				Pub. Safety or Gen. Govt.
E-911 distribution	Intergovernmental		X			Pub. Safety
Education tax credit	Intergovernmental				X	
Electronic home monitoring fees	Charges for services	X				Pub. Safety
Enterprise zone credit	Intergovernmental				X	
Escheats	Miscellaneous				X	
Escrow fees	Charges for services	X				Gen. Govt.

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
Family preservation aid - Minn. Stat. § 477A.0122	Intergovernmental		X			Human Services
Fireworks permits	Licenses and permits	X				Pub. Safety or Gen. Govt.
Food and beverage licenses	Licenses and permits	X				Gen. Govt. or Health
Forfeited taxes	Taxes				X	
Franchise fees (taxes) (usually at cities for utilities, cable companies, etc.)	Taxes				X	
Grants - not restricted to a particular activity or function	Intergovernmental				X	
Grants - restricted to a particular activity or function	Intergovernmental		X	X		Varies
Gravel tax	Taxes				X	
Guardian ad litem	Miscellaneous	X				Pub. Safety or Gen. Govt.
HACA	Intergovernmental				X	
Highway users tax	Intergovernmental		X	X		Highways
Hotel/motel tax	Taxes				X	
Huber fees	Charges for services	X				Pub. Safety
Immunization fees	Charges for services	X				Health
Incremental property taxes (tax increment)	Taxes				X	
Inspection fees	Charges for services	X				Gen. Govt.
Insurance dividends	Miscellaneous				X	
Insurance premium reimbursements	Reduction of expenditure					

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
Insurance reimbursements for health services	Charges for services	X				Health
Interest income on loans receivable restricted for legal purpose	Investment earnings		X	X		Varies
Investment earnings - general	Investment earnings				X	
Investment income restricted for legal purpose	Investment earnings		X	X		Varies
Lease or rent revenues	Miscellaneous				X	
Library fines	Fines and forfeits	X				Cul.-Rec.
Liquor licenses	Licenses and permits	X				Gen. Govt.
Local government aid	Intergovernmental				X	
Marriage licenses	Licenses and permits	X				Gen. Govt.
Mortgage registry tax fee (county share)	Tax				X	
Motor vehicle fees	Charges for services	X				Gen. Govt.
Natural resources land - Minn. Stat. § 477A.11	Intergovernmental		X		X	Conserv.
NSF check fees	Charges for services	X				Varies
Parking fees	Charges for services	X				Gen. Govt.
Passport fees	Charges for services	X				Gen. Govt.
Payments in lieu of taxes - from other governments	Intergovernmental				X	
Payments in lieu of taxes - from other governments restricted for specific purpose	Intergovernmental		X			Varies
Penalties and interest on delinquent property taxes	Taxes				X	
PERA rate increase aid	Intergovernmental				X	

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
Plat books	Miscellaneous	X				Gen. Govt.
Post board reimbursement	Intergovernmental		X			Pub. Safety
Powerline credit	Intergovernmental				X	
Probate surcharge	Charges for services	X				Gen. Govt.
Property tax	Taxes				X	
Public hunting grounds	Intergovernmental				X	
Recording fees	Charges for services	X				Gen. Govt.
Recoveries	Miscellaneous	X				Human Services
Recreational charges (golf courses, league fees, or fees for use of facilities at parks and other county or city-owned property)	Charges for services	X				Cul.-Rec.
Refuse collection fees	Charges for services	X				Sanitation
Reimbursements	Reduction of expenditure					
Restitution	Fines and forfeitures	X				Gen. Govt. or Pub. Safety
Revenues collected for others	Non-revenue agency activity					
Sales of equipment - non-capitalized	Miscellaneous				X	
Sales of general capital assets - normal[2]	Other financing sources				X	

[2]Report only gain or loss on sale in statement of activity.

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
Sales of general capital assets - unusual or infrequent[3]	Special item					
Sales, miscellaneous	Miscellaneous	X			X	Varies
Sales tax	Taxes				X	
Secretarial services reimbursement - state	Reduction of expenditure					
Securities lending	Investment earnings				X	
Septic fees	Charges for services	X				Sanitation or Health
Services provided to other municipalities	Charges for services	X				Varies
Solid waste fees	Charges for services	X				Sanitation
Special assessments - capital improvements	Special assessments			X		Varies
Special assessments - drainage ditch improvements	Special assessments			X		Conserv.
Special assessments - service-type	Special assessments	X				Varies
State police aid	Intergovernmental		X			Pub. Safety
Taconite homestead credit	Intergovernmental				X	
Tax and special assessment searches	Charges for services	X				Gen. Govt.
Tobacco citations	Fines and forfeits	X				Gen. Govt.
Tobacco license	Licenses and permits	X				Gen. Govt.
Traffic fines	Fines and forfeits	X				Gen. Govt. or Pub. Safety

[3] Report only gain or loss on sale in statement of activity.

REVENUE ITEM		REVENUE CLASSIFICATION				Expense Function
		PROGRAM			GENERAL	
DESCRIPTION	SOURCE	FCFO	OGC	CGC		
UCC fees	Charges for services	X				Gen. Govt.
Waste management special assessments	Special assessments	X				Sanitation
Water and sewer fees	Charges for services	X				Water or Sewer
Water/well fees	Charges for services	X				Gen. Govt.
Zoning permits	Licenses and permits	X				Gen. Govt.

SUBJECT:

Interfund, Internal, and Intra-Entity Activity

PURPOSE:

To provide guidance on the accounting and reporting requirements for transactions that occur between different county accounts, departments, funds, or activities. These transactions are included under the broad heading of internal activity.

DISCUSSION:

Interfund activity or "internal activity" is the GASB 34 term for flows of resources between the funds of the primary government, including its blended component units. It is called activity rather than "transactions" because the term "transactions" is limited to describing *external* events--that is, flow of resources to or from someone or something outside the primary government. Discretely presented component units are treated as *external* to the primary government, and transactions with the primary government are identified as intra-entity activity.

Many activities occur between funds and departments of a county. Because they are activities within the primary government, there could be special accounting and reporting requirements. In addition, when preparing the annual financial report, some of these transactions may require elimination to prevent "doubling up" of the transactions in the financial statements.

PRACTICES:

Interfund activity within and among governmental, proprietary, and fiduciary fund categories should be classified and reported as follows:

Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions and includes:

- *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. This activity does not affect the operating statements. If repayment 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. GASB has not defined the term "reasonable time" and it should, therefore, be based on professional judgment. Some factors to consider are the ability to repay, payment history, and established payment terms or schedule.

- *Interfund services provided and used* - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as external transactions. Therefore, revenues are reported in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts should be reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets. The effect of interfund services provided and used between functions (for example, the sale of water or electricity from a utility to the general government) **should not** be eliminated in the government-wide statement of activities.

Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions and includes:

- *Interfund transfers* - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes between funds that are not payments for, and are not reasonably equivalent in value to, services provided. For most Minnesota counties, there are no such payments between funds.

  In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers should be reported after nonoperating revenues and expenses.

- *Interfund reimbursements* - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.

  These are transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund. They are recorded as expenditures or expenses of the reimbursing fund and as reductions of the expenditure or expense originally charged in the fund that is reimbursed.

Internal Service Funds. Internal service funds are used to report activities that provide goods and services to other funds of the county on a cost-reimbursement basis. Since the internal service fund is providing goods or services to other county funds, at the fund level, this interfund activity is considered interfund services provided and used. Within the fund financial statements, internal service funds are reported with proprietary type financial statements. Internal service funds have special significance in the government-wide financial statements. Because most internal service fund transactions are with other county funds, its revenues and expenses are netted (eliminated) at the government-wide level. Only residual balances (assets, liabilities, and net assets) are reported at the government-wide level. In most cases, because of the nature of internal service funds, these residual balances will be reported in the governmental activities column. (If an internal service fund is predominantly providing goods and services to an enterprise fund, the balances could be included in business-type activities.)

The fact that an internal service fund operates on a cost-reimbursement basis is also important to government-wide reporting. If an internal service fund under- or over-recovers its costs (i.e. shows a profit or loss), the over- or under-charge is required to be added back to the expenses of the activities utilizing the goods or services of the internal service fund. Prior to determining this add back, the county should first consider the effect of internal service fund transactions with external parties. Generally, these transactions would be considered revenues or expenses at the government-wide level and are added to the amounts within governmental activities. If the residual balances of an internal service fund are reported as a governmental activity and the fund has transactions with business-type activities, the add back of the profit/loss would also require adjusting internal balances on the statement of net assets for the business-type activities' share of the add back.

Interfund Activity Similar to Internal Service Fund Charges. Sometimes the General Fund, or other fund of the government, acts as an internal service fund, providing a service to other funds and charging the cost to those funds. For example, GASB Statement No. 10 permits governments to use either an internal service fund or the General Fund if a single fund is used to report risk-financing activities. This interfund activity is similar to internal service fund charges. However, it should be treated differently than internal service fund activity. If the fund making the charge reports these amounts as reductions of its own expenses (as interfund reimbursements), no eliminations are required. The expense is already reported only once. However, if a fund making interfund charges reports these amounts as revenues, both amounts (revenues and expenses) should be eliminated in the fund/function making the charges. Again, materiality is a consideration. Preparers and auditors should consider whether the amount that would be eliminated would have a material effect on amounts reported by function/program in the statement of activities.

Interfund activity should not be confused with internal services provided and used. The purchase and resale of office supplies is not a program of the General Fund. (The General Fund does not manufacture office supplies and is not in the business of selling them.) Rather, as an economy and efficiency measure, the government uses the General Fund to buy office supplies and spreads the cost to programs based on use or requisitions. When a county enterprise fund provides a service for the entire county, including the government itself, the government's functions are purchasers of the enterprise fund's services (like its other customers). This internal activity constitutes interfund services provided and used and should not be eliminated, as discussed previously.

Allocations of Overhead Expenses. Although not acting as internal service funds, some *funds* charge other funds for what are, in effect, allocations of overhead expenses (such as allocations of accounting staff salaries). These allocations should be treated in the same way as interfund activity. Again, however, materiality is a consideration.

Eliminations. Generally, internal activity and balances that are reported as interfund activity and balances in fund financial statements should be eliminated or reclassified at the government-wide financial statement level. However, there is some internal activity that is not eliminated. The following table provides guidance on how different types of internal transactions are accounted for and reported within the different financial statements:

Type of Internal Activity	Transaction Type	Fund Financial Statements	Statement of Net Assets	Statement of Activities
Between governmental funds included in governmental activities column	Interfund loans	Interfund receivables/ payables	Eliminate within the governmental activities column	Not applicable
	Interfund services provided and used	Receivables/ payables Revenues/ expenditures	Not eliminated	Not eliminated
	Interfund transfers	Other financing source (use) transfers	Not applicable	Eliminate within the governmental activities column

Type of Internal Activity	Transaction Type	Fund Financial Statements	Statement of Net Assets	Statement of Activities
	Reimbursements	Expense in reimbursing fund Reduction of expense in fund that is reimbursed	Already accounted for at fund level	Already accounted for at fund level
Between funds included in the business-type activities column	Interfund loans	Interfund receivables/ payables	Eliminate within the business-type activities column	Not applicable
	Interfund services provided and used	Receivables/ payables Revenues/ expenditures	Not eliminated	Not eliminated
	Interfund transfers	Transfers	Not applicable	Eliminate within the business-type activities column
	Reimbursements	Expense in reimbursing fund Reduction of expense in fund that is reimbursed	Already accounted for at fund level	Already accounted for at fund level
Between a governmental fund included in the governmental activities column and an enterprise fund included in the business-type activities column	Interfund loans	Interfund receivables/ payables	Reported as internal balance; eliminate in the total primary government column	Not applicable
	Interfund services provided and used	Receivables/ payables Revenues/ expenses or expenditures	Not eliminated	Not eliminated
	Interfund transfers	Transfers	Not applicable	Transfers

Type of Internal Activity	Transaction Type	Fund Financial Statements	Statement of Net Assets	Statement of Activities
	Reimbursements	Expense/ expenditure in reimbursing fund Reduction of expense/ expenditure in fund that is reimbursed	Already accounted for at fund level	Already accounted for at fund level
Between the primary government (governmental and proprietary funds) and fiduciary funds	Interfund loans	Interfund receivables/ payables	Report as receivable from/payable to external parties	Not applicable
	Interfund services provided and used	Receivables/ payables Revenues/ expenses or expenditures	Report as receivable from/payable to external parties Not eliminated	Report as revenue/ expense with external parties
	Interfund transfers	Transfers	Not applicable	Report as revenue/ expense with external parties
	Reimbursements	Deduction/ expenditure in reimbursing fund Reduction of deduction/ expenditure in fund that is reimbursed	Already accounted for at fund level	Already accounted for at fund level

Type of Internal Activity	Transaction Type	Fund Financial Statements	Statement of Net Assets	Statement of Activities
Between funds included in governmental or business-type activities columns and internal services funds	Interfund loans	Interfund receivables/ payables	Receivables/ payables between internal services and governmental funds are eliminated within governmental activities column Generally, receivables/ payables between internal services and enterprise funds are added to the governmental activities column[1]	Not applicable
	Interfund services provided and used	Receivables/ payables Revenues/ expense or expenditures	Receivables/ payables between internal services and governmental funds are eliminated within governmental activities column Generally, receivables/ payables between internal services and enterprise funds are added to the governmental activities column[2]	Eliminate any profit or loss of internal service fund activity by a "look back" and adjust internal service charges to break even against appropriate activity

[1]If enterprise funds are the main customer of the internal service fund, these amounts could be offset in the business-type activities column.

[2]See footnote 1.

Type of Internal Activity	Transaction Type	Fund Financial Statements	Statement of Net Assets	Statement of Activities
	Interfund transfers	Transfers	Not applicable	Transfers between internal services and governmental funds are eliminated within governmental activities column Generally, transfers between internal services and enterprise funds are added to the governmental activities column[3]
	Reimbursements	Expense/ expenditure in reimbursing fund Reduction of expense/ expenditure in fund that is reimbursed	Already accounted for at fund level	Already accounted for at fund level
Between the primary government and discretely presented component units	Intra-entity activity Receivables/ payables Revenues/expenses or expenditures	Receivables/ payables Revenues/ expenditures or expenses (may be separately identified)	Receivables/ payables shown as separate line item (due from/to component unit)	Revenues/ expenses from external parties Significant transfers of resources may be separately presented

[3] See footnote 1.