

### 3. ACCOUNTING

#### 3.9 Interfund Activities

#### 3.9.4 Reimbursements

- 3.9.4.10 For financial reporting purposes, all revenue, expenditures/expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the transaction takes place. This means transactions should be presented at gross amounts unless the transaction is a reimbursement or else netting is specifically allowed by GAAP. Examples of allowable netting other than reimbursements include reinsurance activities for public entity risk pools ([GASB Statement 10](#)), pollution remediation obligation ([GASB Statement 49](#)) and some insurance recoveries ([GASB Statement 42](#)), etc.

#### Interfund Reimbursements

- 3.9.4.20 Reimbursements are repayments from the fund responsible for particular expenditures/expenses to the fund that initially paid for them. They are adjustments to correct the assignment of the expenditures/expenses. Reimbursements reduce expenditures/expenses in the fund that is reimbursed and move the expenditures/expenses to the fund that ultimately pays for it. The offsetting transaction should be posted on an object level.
- 3.9.4.30 There is one major exception to this definition: frequently, internal service funds are created to account for cost allocation and purchasing. In those funds, cost allocations and payments for pooled purchases are treated as revenues rather than reimbursements.
- 3.9.4.40 Examples of reimbursements include: correction of errors, internal allocation of overhead and payments received for others' share of pooled activities (payments for a convenience) such as the distribution of utility and telephone bills among the departments and funds after one department has paid the bill or the allocation of insurance premiums and payrolls among various departments and funds.
- 3.9.4.50 Reimbursements do not include recoveries for damages, whether from insurance or from private sources, grants, contractual payments, impact payments, or shared costs of providing services from the federal, state or local governments. Also, do not include expenditures which constitute direct cost of the activity like interfund taxes, utility payments, licenses, interest, etc.

#### Reimbursements to External Parties

- 3.9.4.60 Only corrections of error (including discounts/rebates awarded after the transactions were completed) would qualify as reimbursement and as such, they should be treated in similar manner like interfund reimbursements. If a local government has an ongoing relationship with an external entity (e.g., phone company, etc.) the amounts of reimbursements most likely would be included in the upcoming bill, so no adjusting entry is required. If the reimbursement is related to the expenditure/expense from the previous fiscal year and is immaterial, the amount of reimbursement may be recorded as revenue. If it is material, the government should adjust its fund balance.
- 3.9.4.70 Examples of transactions that should not be accounted for as reimbursements include: state payments for public health services, expert witnesses, police salaries while attending criminal justice training; federal/state/local payments for the care and custody of prisoners and for election costs; local

payments for data processing services, police/sheriff services, street maintenance, etc.; private payments for street repairs, culvert installations, weed control, demolition of dangerous property, subleases, etc.