

Chapter Six

Internal Service Funds

Internal service funds are established to account for any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. An internal service fund should be used only when the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund. (Statement 34, paragraph 68)

As a proprietary fund, an internal service fund utilizes the total economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Although generally accepted accounting principles do not require the use of an internal service fund, SBE Rule 6A-1.099, requires the use of an internal service fund for all educational consortia activities. The authorizing statute is Section 230.23(12), F.S., which states that school boards "may establish and participate in educational consortia which are designed to provide joint programs and services to cooperating school districts, consistent with the provisions of s. 4(b), Art. IX of the State Constitution."

The following principles regarding internal service funds (or enterprise funds required for self-insurance pools) apply to educational consortia are:

- a. All monies received by a consortium shall be deposited to the official accounts of the host district (recipient agency) and shall be separately accounted for in an internal service fund.
- b. All transactions for the consortium shall be recorded in the proper account within the fund. Projects submitted on behalf of the consortium shall be recorded directly in the internal service fund. Revenues generated by billing to participating districts shall be recorded directly in the internal service fund.
- c. Expenditures for operating costs of the consortium, including any rent or service charge due the host district's general fund, shall be charged to the fund. Contractual services performed by the consortium for the host district shall be accounted for in the same manner as those for other consortium members; i.e., there would be an expenditure charged to the general or special revenue fund of the school district receiving services and revenue credited to the internal service fund. Amounts charged by the consortium shall be sufficient to cover all costs of goods or services provided to member districts. Records of the consortium shall be in sufficient detail to determine that member districts receive full value of purchased goods or services. For instance, if a member district pays \$10,000 for goods or services from the consortium, the records of the consortium shall reflect that \$10,000 of goods or services were provided to the member district.
- d. The disposition of unexpended cash balances at the end of each fiscal year should be by refund to the participating consortia members; however, the host district may, with the consent of the participating members, carry forward cash balances for use in the ensuing fiscal year.
- e. Districts that serve as the host district for more than one consortium shall maintain separate records for each consortium.

- f. The account that a consortium should use when revenues are recognized from member districts is 3481, Charges for Services. The initial receipt of money from member districts shall be handled on the books of the host district as deferred revenue. The participating member district shall record disbursements to the consortium as a receivable until goods or services are received. At that time an expenditure shall be recorded on the accounts of the member district and revenue shall be recognized on host district's accounts.

Contracted services and activities rendered by an educational consortium may include, but not be limited to, bidding, contracting and purchasing arrangements for the purpose of implementing the following examples of the types of programs or functions provided.

1. Programs:
 - a. Teacher Education Center
 - b. Inservice Training for Non-instructional Personnel
 - c. Federal Programs
 - d. Student Testing
 - e. State and Federal Mandated Programs

2. Functions:
 - a. Instructional Services
 - b. Fiscal Services
 - c. Data Processing and Management Information Services
 - d. Pupil Personnel Services
 - e. Purchasing
 - f. Printing
 - g. Media Center

Any other services to member districts deemed necessary by the Board of Directors of the consortium may also be rendered.

Additional information regarding the account structure necessary to record the activity described above can be found in Chapters 2, 3, and 4 of this manual.