Chapter 6

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 (GASB 34, ¶68).

As a proprietary fund, an internal service fund uses 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 GAAP do not require the use of an internal service fund, Rule 6A-1.099(2)(e), F.A.C., requires the use of an internal service fund for all educational consortia activities. The authorizing statute is Section 1001.42(14), F.S., which states that district school boards "may establish and participate in educational consortia that 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:

1. All monies received by a consortium shall be deposited to the official accounts of the host school district (recipient agency) and shall be separately accounted for in an internal service fund.

2. 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 school districts shall be recorded directly in the internal service fund.

3. Expenditures for operating costs of the consortium, including any rent or service charge due the host school district's general fund, shall be charged to the fund. Contractual services performed by the consortium for the host school district shall be accounted for in the same manner as those for other consortium members (i.e., an expenditure should be charged to the general or special revenue fund of the school district receiving services and revenues 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 school districts. Records of the consortium shall be in sufficient detail to determine that member school districts receive full value of purchased goods or services. For instance, if a member school 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 school district.

4. The disposition of unexpended cash balances at the end of each fiscal year should be by refund to the participating consortium members; however, the host school district may, with the consent of the participating members, carry forward cash balances for use in the ensuing fiscal year.

5. School districts that serve as the host school district for more than one consortium shall maintain separate records for each consortium.

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

Contracted services and activities rendered by an educational consortium may include, but are not limited to, bidding, contracting, and purchasing arrangements to implement the following types of programs or functions:

1. Programs:

    a. Teacher Education Center
    b. Inservice Training for Noninstructional 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. Student Personnel Services
    e. Purchasing
    f. Printing
    g. Media Center

Any other services to member school 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.