# Manual of Accounting and Financial Reporting for Pennsylvania Public Schools

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# **Chapter 9**

# **Proprietary Funds**

\*\* Updated 1/3/05 \*\*

Proprietary Funds are used to account for governmental activities that are like commercial activities. Proprietary Funds account for the production of goods or services sold to the public, another fund or department within the government, or to another government. There are two (2) types of Proprietary Funds:

- Enterprise Funds; And
- ❖ Internal Service Funds.

# **ENTERPRISE FUNDS**

LEAs often engage in business-type activities, where the intent is to recover, in whole or in part, the cost of providing goods or services to others. A profit motive is not required for an activity to be reported as an Enterprise fund. This section will discuss:

- The Nature And Purpose Of Enterprise Funds;
- Accounting For An Enterprise Fund; And
- ♦ Common Journal Entries For The Food Service Fund, Which Is The Most Common Enterprise Fund For LEAs.

## Nature And Purpose

Enterprise Funds are used to account for operations where the intent of the governmental entity is to recover the costs of providing goods and services to the LEA's student population and staff primarily through user charges. The costs to be recovered are the *expenses* of the operation, including depreciation. This does not mean, however, that all of the expenses of the operation must be paid by the users for an Enterprise Fund to be appropriate. The Codification of Governmental Accounting and Financial Reporting Standards, Section 1300.104 allows for Enterprise Funds to be used where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

# \* Food Service Fund

The Food Service Fund is the primary Enterprise Fund operated by Pennsylvania LEAs. The Pennsylvania School Code establishes food service programs under Section 504. The code requires that prices will not materially exceed the cost of operation and that any funds remaining from operations must be used 'only for the improvement or maintenance of the cafeteria and may not be used for other purposes.'

All receipts and disbursements relating to food service operations must be accounted for in a separate fund, the Food Service Fund. Any assistance given the cafeteria operations by the General Fund must be recorded as a transfer to the Food Service Fund and all revenues and expenses of the cafeteria must then be recorded in the Food Service Fund itself. Charter schools are permitted to account for food service type activities in the General fund if the school does not operate a fully functioning cafeteria.

# Basis Of Accounting And Measurement Focus

The Generally Accepted Accounting Principles applicable in this fund category are similar to those applicable to business in the private sector. The measurement focus is on determination of net income, financial position and cash flows. Enterprise Funds are concerned with the flow of economic resources as opposed to the focus on the flow of **current** financial resources found in Governmental Funds.

Enterprise Funds use the full accrual method of accounting. As such, revenues are recognized in the period in which they are earned and expenses are recognized when they are incurred. If advance payments are received, the revenue is deferred until the service is provided. Subsidies are earned based on services provided; therefore, revenue and a receivable should be recognized as those services are provided by the cafeteria operations.

# \* Budgets

Budgets are often adopted for Enterprise Funds. However, there is no requirement under GAAP to present budget to actual comparison for Enterprise Funds as part of the basic financial statements, even if annual budgets are legally adopted for these funds. It is recommended, however, that schedules showing such comparisons be included in the Enterprise Fund subsection of the comprehensive annual financial report to demonstrate legal compliance.

A system of budgetary control should be used in the Food Service Fund. Realistic flexible budgeting should be used for planning, control and evaluation purposes. Expenses are based on demand, not appropriations, and variation in demand triggers both revenues and expenses. The focus of this fund is on the cost of goods or services provided, not appropriation spending. Flexible budgets allow for comparison between results of operations and budgeted amounts for the level of activity experienced.

# Capital Assets

Capital assets, which are related to a specific proprietary fund type, are accounted for through that proprietary fund. The assets are capitalized in the fund accounts because they are used in the production of goods and services, which are provided and sold. Depreciation on these assets must be recorded so that total expenses, net income and changes in fund equity can properly be determined.

(Ex. 9-1) The cafeteria is purchasing three (3) new ovens for cash at a total value of \$1,200.00.

50-0231 Machinery And Equipment \$ 1,200.00 50-0101 Cash \$ 1,200.00

To record purchase of ovens for food service operation.

**NOTE:** Detailed asset records should be maintained to substantiate the amounts reported in the summary capital asset accounts

on the general ledger.

# \* Debt

Bonds, notes and other long-term liabilities should be reported in the Enterprise Fund if they were issued for Enterprise Fund purposes and are expected to be paid with Enterprise Funds. The debt may be considered a "general obligation" of the LEA, but if the expected source of repayment is the Enterprise Fund, then the debt should be reported in the fund itself. Long-term debt is used often to make capital asset purchases.

General obligation bonds are considered to be full faith and credit bonds. If they will be repaid from the earnings of the food service fund, then the proceeds should be recorded as a liability of the food service fund (see Example 9-3). If, however, the principal and the interest are to be paid from general fund revenues and taxes of the school district, then the entries to record the issuance of the general obligation bonds are recorded as shown in Example 9-4.

(Ex. 9-2) The cafeteria purchases new ovens on account.

50-0231 Machinery And Equipment \$ 1,200.00

50-0421 Accounts Payable \$ 1,200.00

To record purchases of ovens on account for food service operations.

(Ex. 9-3) \$1,000.00 of general obligation bonds are issued and available for the food service fund. The principal and interest of these bonds will be paid from the earnings of the food service fund.

Food Service Fund
50-0101 Cash \$ 1,000.00
50-0421 Bonds Payable \$ 1,000.00

To record issuance of bonds.

(Ex. 9-4) \$1,000.00 in general obligation bonds (GOB) are issued by the school district with the proceeds to go to the Food Service Fund. The principal and the interest are to be paid from general revenues and taxes of the school district.

General Fund Residual Equity Transfer (Fund Balance) Proceeds From The Issuance Of Bonds	\$ 1,000.00	\$ 1,000.00
Food Service Fund 50-0101 Cash Contributed Capital	\$ 1,000.00	\$ 1,000.00

## \* Revenues

Food service fund revenues are recognized in the period in which they are earned. User charges are normally received when the service is performed and thus recorded as received. If advanced payments are received the revenue is deferred until the service is provided. Subsidy payments are received based on services provided, thus the revenue is recognized along with a corresponding receivable. When the cash is received, the receivable is adjusted accordingly.

(Ex. 9-5) Sales in the cafeteria for the month were \$30,000.00.

Food Service Fund		
51-0101 Cash	\$ 30,000.00	
51-6650 Price Reduction For Reduced Priced		
Meals	2,000.00	
51-6610 Daily Sales Reimbursable Programs		\$ 29,000.00
51-6620 Daily Sales Non-reimbursable		3,000.00
To record sales for the month.		

**NOTE:** If price reduction for reduced price and free meals is not maintained, the credit to Account 51-6610 Daily Sales – Reimbursable Programs would be \$27,000.00.

**Revenue Subsidiary Ledger**51-0302 Revenues Control Account \$ 30,000.00

(Ex. 9-6) The State will subsidize \$1,000.00 for milk, lunch and breakfast programs, while the Federal subsidy for the same program will be \$9,000.00 for the month.

#### **Food Service Fund**

51-0142 State Subsidies Receivable \$ 1,000.00 51-0143 Federal Subsidies Receivable 9,000.00

\$

1,000.00

9.000.00

51-7600 State Subsidy For Lunch Programs
51-8531 Federal Subsidy For Lunch Programs

To record entitlement for reimbursable meals served for the month.

## \* Expenses

Food Service Fund expenses are recognized in the period in which they are incurred. Inventories of materials and supplies are recognized as expenses when they are consumed.

(Ex. 9-7) The cafeteria used \$15,000.00 worth of food and \$5,000.00 in food service management costs to provide meals to the students for the month.

#### **Food Service Fund**

51-3100-630 Food	\$	15,000.00	
51-0172 Inventories For Resale			\$ 15,000.00
To record the cost of food used for the month.			
	•		
51-3100-572 Food Service Management	\$	5,000.00	
51-0421 Accounts Payable			\$ 5,000.00

To record the cost of food service management for the month.

(Ex. 9-8) If subsidiary revenue and expense ledgers are used, the following entry is made to close the revenue and expenses to unreserved retained earnings at the end of the fiscal year.

50-0302 Revenues Control Account 50-0602 Expenditures Control Account 50-0740 Unreserved Retained Earnings

\$ 200,000.00

\$ 190,000.00 10,000.00

To close revenue and expenses to unreserved retained earnings.

# \* Federally Donated Commodities

Inventory of federally donated commodities must be reported at year-end. The suggested way to report the commodities that are on hand at year-end is a debit to inventory and an offsetting credit to deferred revenue. The reason for the offsetting credit to a deferred revenue account is that the title of the federal donated commodities does not pass to the school district until the commodities are used.

Donated commodities should be recorded at their fair market value. The fair value of the commodities used during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue. The following example is meant to aid in the reporting of federally donated commodities.

(Ex. 9-9) The federal government donated 50 pounds of butter at a fair market value (FMV) of \$150.00.

#### **Food Service Fund**

Inventory – Federally Donated \$ 150.00

Deferred Revenue \$ 150.00

To record donated butter.

(Ex. 9-10) Assume that it is decided that 10 pounds of butter with a FMV of \$30.00 had been used in servicing the food service program.

#### **Food Service Fund**

Food Service Expense	\$	30.00	
Inventory – Federally Donated			\$ 30.00
To record commodities used.			
	_		
5.4	•		
Deferred Revenue	\$	30.00	
Revenue	_		\$ 30.00
To recognize revenue from donated commodities.			

# Depreciation Expense

All the depreciable property of the food service fund must be depreciated according to GAAP as applied by commercial enterprises. Any depreciation charged to the capital assets of the food service fund must be recorded as an expense on the operating statements of the fund.

The manner in which the food service fund's depreciable assets, which are financed by resources specifically made available for capital expenditures are accounted for is similar to all other depreciable property. Depreciation expenses and accumulated depreciation are both recorded for depreciable property acquired through grants, entitlements, or shared revenues restricted for capital outlays. The depreciation expense is represented as an operating expense on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

(Ex. 9-11) A capital grant of \$25,000.00 is received and is specifically to be used for the purchase of cafeteria equipment.

Food Service Fund Cash Contributed Capital – Capital Grant To record receipt of grant.	\$ 25,000.00	\$ 25,000.00
Machinery And Equipment  Cash  To record purchase of cafeteria equipment.	\$ 25,000.00	\$ 25,000.00

(Ex. 9-12) The cafeteria equipment has an estimated useful life of five (5) years and no salvage value. The method used to depreciate the equipment is straight-line.

	Depreciation Expense	\$ 5,000.00		
	Accumulated Depreciation		\$ 5,000	.00
ſ	To record depreciation on the cafeteria equipment.			

(Ex. 9-13) At the end of the fiscal period, an entry has to be made to close out the depreciation account.

Retain	ed Earnings	\$ 5,000.00	
De	epreciation Expense		\$ 5,000.00
To clo	se out depreciation expense account.		

# INTERNAL SERVICE FUNDS

It is often advantageous to centralize the activities of certain goods and services within an LEA. Internal Service Funds provide a useful means of accounting for such centralized intragovernmental activities. This section will examine:

- ◆ The Nature And Purpose Of Internal Service Funds;
- Accounting For Internal Service Funds;
- ♦ Risk Financing And Self-Insurance; And
- Examples Of Journal Entries For An Internal Service Fund.

#### Nature And Purpose

The GASB *Codification*, Section 1300.104 states that Internal Service Funds may be used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit. When it is advantageous to centralize the provision of goods or services, LEAs may use an Internal Service Fund to account for such provision to other funds of the LEA. Services accounted for in Internal Service Funds are tangible, and it is possible to determine the extent to which they benefit individual funds or LEAs. Typical services reported in Internal Service Funds include:

- Printing and Duplicating
- Data Processing Services
- Central Purchasing
- ♦ Risk Financing (Self Insurance)

The use of Internal Service Funds is not required by GAAP. Once a decision is made to account for a particular service as an Internal Service Fund; however, it should be followed consistently from year to year. Governmental fund type and proprietary fund type accounting produce significantly different financial statements. Therefore, fund classifications must be consistently applied from year to year if there is to be a significant potential for meaningful financial statement comparative analysis.

# Basis Of Accounting And Measurement Focus

The Generally Accepted Accounting Principles applicable in this fund category are generally those applicable to business in the private sector. Internal Service Funds are accounted for using the accrual basis of accounting. The accounting for this fund is designed to accumulate the total cost (including depreciation and overhead) of providing a particular service.

The measurement focus is on determination of net income, financial position and cash flows. In other words, internal service funds are concerned with the flow of economic resources as opposed to the focus on the flow of **current** financial resources found in Governmental Funds. This allows the fund to recover the full cost of providing goods and services to departments, other funds, and other entities.

Internal Service Fund revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred.

# Number Of Funds

The main purpose of Internal Service Funds is to identify and allocate costs related to the provision of specific goods and services within the LEA. Therefore, it is important that costs related to separate activities be accounted for separately. Accordingly, separate individual Internal Service Funds normally are established for each different type of activity. This segregation is essential to determine the total cost of providing a service, and assure that the resources generated by one (1) service are not improperly utilized for another. Activity for all the Internal Service Funds are combined at year end and reported under one (1) Internal Service Fund category.

## \* Budgets

Budgets may be adopted for Internal Service Funds on a full accrual basis consistent with GAAP. There is no requirement under GAAP to present budget to actual comparisons for Internal Service Funds as part of the basic purpose financial statements, even if annual budgets are legally adopted for these funds. Such comparisons may be included; however, in the Internal Service Fund subsection of the comprehensive annual financial report.

An Internal Service Fund is a fiscal entity through which some of the expenditures of other operating funds or LEAs take place. The budgeted expenditures and expenses of those departments or agencies the Internal Service Fund services constitute an indirect budgetary ceiling on Internal Service Fund spending.

Internal Service Fund delivery levels are determined by the extent of demand for services from other funds or LEAs. The use of fixed dollar budgets may, therefore, not be appropriate for Internal Service Funds.

# \* Accounting

Accounting for Internal Service Funds, like all proprietary fund type accounting, is designed to accumulate the total cost (including depreciation and overhead) of providing a particular service. Internal Service Funds are reimbursed for these costs by the fund or LEA to which they are provided. Such reimbursements are accounted for as quasi-external transactions. Accordingly, they are treated as operating revenues of the Internal Service Fund and as current operating expenditures or operating expenses of the reimbursing fund.

Charges to other departments and agencies for Internal Service Fund services are intended only to recoup the total cost of such services. Internal Service Funds are not designed to produce any significant profit in the long run.

Internal Service funds are not subject to the major fund rule for presentation. Internal Service funds are presented as a separate column on the Proprietary funds statements and are not included in the total column in any of the statements.

Three (3) issues arise with proper accounting and financial reporting for Internal Service Funds. These issues are:

- ◆ Duplication Of Expenses / Expenditures Within The Financial Reporting Entity;
- Surpluses And Deficits Within The Internal Service Fund; And
- Risk Financing

#### <u>Duplication</u>

Most transactions between Internal Service Funds and other funds are quasi-external transactions. Consequently, the funds receiving goods or services report an expense or expenditure for payment to the Internal Service Fund. The Internal Service Fund reports revenue received, as well as an expense for producing the goods or service.

Internal Service Fund activities should be eliminated when preparing the government wide statement of activities to avoid duplication of expenses and revenues. This is accomplished by adjusting the activities of the fund to create a break-even balance. Any residual balances are reported in the governmental activities column on the statement of activities if the Internal Service fund's activities benefited the governmental funds. If the activities benefited the business funds of the school, then the residual amounts would be accounted for in the business type activities column on the statement of activities.

#### Surpluses and Deficits

Internal Service Funds are used to account for services provided on a *cost-reimbursement* basis (i.e., without profit or loss). Therefore, surpluses or deficits in the Internal Service Fund may be an indication that other funds were not charged properly for the goods or services they received.

The cost-reimbursement basis applies to the operations of the fund over time. If Internal Service Funds consistently report significant deficits or surpluses, however,

charges made to other funds must be reassessed. If it is determined that the charges made to other funds are more or less than is needed to recover cost over a reasonable period, then the excess or deficiency should be charged back to the participating fund or LEA. It is **not** appropriate to report a material deficit in an Internal Service Fund without the intent and ability to recover that amount through future charges over a reasonable period. Often Internal Service Funds charge for asset use in excess of historical cost depreciation to ensure that adequate funds will be available to purchase replacement assets. This recovery of the replacement cost of fixed assets is not a violation of the cost allocation principle because the resulting surpluses are only temporary. They will disappear when the higher priced assets are acquired.

# Risk Financing

Risk management is the process of managing an organization's activities in order to minimize the adverse effects of certain types of losses. Risk control (the minimization of losses) and risk financing (financing to provide for or restore the economic damages of losses) are two (2) main elements of risk management. The techniques of risk financing include risk retention (self-insurance) and risk transfer (to a commercial insurance company or noninsurer). Risks of loss result from:

- Injuries or damages not involving a breach of contract;
- Theft or destruction of assets:
- Business interruption;
- Errors or omissions;
- ♦ Job-related illnesses or injuries to employees; and
- Acts of God (events which are out of human control).

GASB Statement 10 establishes the accounting and financial standards for risk financing and self-insurance related activities for state and local governments. If an LEA wishes to account for all of its risk financing activities in a single fund, it is recommended that the Internal Service Fund be used. However, GASB Statement 10 also permits the use of the general fund for such purposes. Charges to other funds by the Internal Service Fund are to be treated as *quasi-external* transactions, i.e., expenses / expenditures by the paying fund(s) and as revenue by the Internal Service Fund. Prior to the implementation of GASB Statement 10, NCGA Statement 4 required that these charges by the Internal Service Fund be accounted for as a transfer.

The Internal Service Fund should limit liability recognition to <u>probable</u> and <u>measurable</u> losses as of the date of the balance sheet. Charges to the insured funds should be actuarially determined or based on historical need. A premium may be charged to other fund(s) that exceeds actual losses in order to accumulate resources for anticipated future catastrophic losses. But that excess charge is not recognized as a liability until the loss is both probable and measurable.

If a future loss does not satisfy the <u>probable</u> and <u>measurable</u> criteria, the loss should be evaluated to determine whether it should be disclosed in the LEA's notes to the financial statements. A loss that satisfies one of the following criteria should be disclosed:

- ◆ The loss is probable but an estimate of the amount or range of the loss cannot be made;
- ◆ The loss is reasonably possible (reasonably possible means that the chance of the loss occurring is more than remote but less than likely, remote means slight).

If a disclosure is required, the nature and the estimated amount or range of the loss should be disclosed. If the LEA is not able to estimate the amount or range of the loss, the footnote disclosure should state this fact. In most instances, LEAs will have some form of comprehensive or catastrophic coverage associated with health, dental, fire, general liability or workers' compensation insurance. In such instances, these accounting and reporting requirements apply to the uninsured portion of the liability.

# Incurred But Not Reported (IBNR)

In addition to situations discussed above, an LEA should evaluate situations where Incurred But Not Reported (IBNR) losses occur. Common types of IBNR losses are workers' compensation and medical claims. IBNR is related to an event that could lead to the occurrence of a loss before the date of the financial statements, but no claim has been asserted at the date of the financial statements.

If the LEA concludes that an IBNR will be asserted by another party, the loss should be accrued if a reasonable estimate of the loss can be made. The amount of the accrual should be based on past experience of settling claims and total cost for settling a claim including provisions for inflation. This accrual can be based on a case-by-case review or on overall historical experience. In some instances, if the computation is complicated, an actuary may be needed to determine the calculation.

Insurance involves the transference of risk to an independent third party. **Self-Insurance** is the term used to describe the practice of a school controlling and self-directing the costs of administering an insurance program while retaining a risk of loss, instead of transferring the risk by purchasing an insurance policy from an independent third party. Sometimes assets are set aside to fund related losses. Information pertaining to the accounting for self-insurance funds can be found in the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. It is important to use this statement as a primary reference when accounting for self-insurance. The statement discusses in depth the methods to recognize revenue premiums, cost of claims and other accounting issues concerning self-insurance. It also discusses various disclosures and supplemental information concerning self-insurance and risk financing that are required. LEAs should review their self-insurance fund with their independent auditor to ensure proper and adequate accounting and disclosure for the Comprehensive Annual Financial Report.

Since an LEA retains the risk when "self insuring," no expenditure for purchasing insurance from a third party has occurred. Therefore, expenditures should not be recorded to object code 210 (group insurance). Instead, the fund(s) that have been billed by the Internal Service Fund should record an expenditure to object code 270 (health benefits).

Examples of self-insurance programs include:

- Medical Costs:
- ♦ Dental Costs;
- General Liability;
- Workmen's Compensation;
- Unemployment Compensation;
- Drug Prescription Plans; and
- ♦ Vision Care
- (Ex. 9-14) Assume that an Internal Service Fund is used to account for the LEA's risk financing activities and the following:
  - ◆ The LEA incurs \$75,000 in probable and measurable losses for the period.
  - ◆ The Internal Service Fund charges a total of \$80,000.00 in premiums. The \$5,000.00 excess of premiums over actual losses is intended to help accumulate resources for future catastrophic losses.

# The initial entry in the Internal Service Fund would be:

Expense	\$ 75,000.00	
Liability		\$ 75,000.00
To record liability for claims and judgments.		

# The paying fund(s) would report:

Expense / Expenditure	\$ 80,000.00	
Cash		\$ 80,000.00
To record the premium payments – use object 270.		

# The Internal Service Fund would then recognize the receipt as:

Cash
Revenue

To record receipt of premiums – use revenue code 6970.

\$ 80,000.00 \$ 80,000.00

**NOTE:** Because intrafund premiums paid to Internal Service Funds are quasi-external transactions, rather than reimbursements, the amount recorded for premiums in the above example is not limited to the amount recognized as expense in the Internal Service Fund, provided that:

- ◆ The excess represents a reasonable provision for anticipated losses, or
- ◆ The excess is the result of a funding method designed to match revenues and expenses over a reasonable period of time.

GASB's *Codification*, Section C50, specifically requires that any deficit in an Internal Service Fund used for risk financing activities, must be charged back to the other fund(s) as expenditure / expense over a reasonable period of time. Surplus retained earnings in the Internal Service Fund from charging a reasonable provision for expected future catastrophic losses must be designed as such in the notes to the financial statements. A deficit in retained earnings in the Internal Service Fund should also be disclosed in the notes to the financial statements.

# Participation In Public Entity Risk Pools

A public entity risk pool is defined by GASB Statement No. 10 as a cooperative of governmental entities joining together to finance an exposure liability or risk. Risk may include property and liability, workers' compensation or employee health care. A pool could be a stand-alone entity or it could be included as part of a larger governmental entity that acts as the pool's sponsor.

Some pool risk arrangements entail a transfer of risk and others do not. GASB Statement No. 10 defines four types of public entity risk pools:

- ◆ A risk sharing pool is an arrangement by which governments pool risk and share in the cost of losses;
- An insurance purchasing pool is an arrangement by which governments pool funds or resources to purchase commercial insurance products;

- A banking pool is an arrangement by which monies are made available for pool members in the event of loss on a loan basis; and
- A claim servicing or account pool is an arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid.

# Participating In A Public Entity Risk Pool Without Transfer Of Risk

An LEA may participate in a banking pool or a claim servicing or account pool with no transfer of risk. In this situation, the LEA should recognize losses as if it were not participating in a public entity risk pool and account for losses using the same criteria discussed above for accounting and financial reporting for self insurance.

When payments are made to a public entity risk pool without transfer of risk, such payments should be accounted for as a reduction of the liability account set up in the Internal Service Fund. If the payment that was made is intended to be a deposit rather than for claims settlement, a deposit (another asset account) should be recorded by the LEA.

# Participating In A Public Entity Risk Pool With Transfer Of Risk

LEAs may face two (2) types of situations when participating in a public entity risk pool:

- Premiums paid represent total payments expected; and
- Supplemental premium assessments are made by the public entity risk pool.

The premiums paid by the LEA that result in a transfer of risk should be accounted for as expenditures or expenses depending on the fund type. Additional accruals for supplemental premiums will be necessary if the payment of this premium is probable and a reasonable estimate of the premium assessment could be made. When the assessment does not satisfy these criteria, the LEA should disclose a description of the possible supplemental premium assessment and the estimate of the assessment, if available, in the following instances:

- ◆ The occurrence of the assessment is probable but a reasonable estimate of the amount could not be made, or
- ◆ The likelihood of the assessment is reasonable possible.