

4. REPORTING

4.3 Fund Financial Statements

4.3.6 Internal Service Funds

4.3.6.10 The internal service funds are reported in all of the proprietary fund financial statements in a separate column to the right of the total enterprise funds column. Major fund requirements do not apply to the internal service funds and their information is combined into one column. See [Proprietary Funds Financial Statements](#) for reporting requirements and [Internal Service Funds](#) for more information about the funds.

The individual internal service funds may be presented as supplementary information.

Reporting the Internal Service Funds in the Government-Wide Financial Statements

4.3.6.20 Even though internal service funds are classified as proprietary funds, the nature of the activity accounted for in them is generally governmental and should normally be reported as governmental activities. The exception to this presentation is when the internal service funds serves predominantly¹ external parties or enterprise funds. Then they should be reported together with the business-type activities.

There may be cases where internal service funds provide services for both governmental and enterprise funds. In that situation the internal service fund should be consolidated in the same activities column as its predominant customers. The fund should be consolidated entirely within either governmental or business-type activities column (i.e., one fund cannot be allocate between two columns).

4.3.6.30 Before allocating any of the balances, the government needs to consider their materiality. Also, instead of prorating balances to different functions, it may be sufficient to allocate the entire amount to a predominant function. The revenues and expenses associated with services provided to external customers should be excluded from this allocation. The government has to use its professional judgment to determine if the failure to allocate the internal service fund balances would materially affect the government-wide financial statements. The allocations and adjustments do not need to be posted to the general ledger. They are matters of spreadsheet calculations.

4.3.6.40 The internal service fund asset and liability balances that are not eliminated² should be reported in the governmental activities column (unless the enterprise funds are predominant or only user of its services).

The amounts reported in the internal service funds are added to the net position of the governmental funds and then included in the statement of net position.

¹ The [GASB Statement 34](#) does not define the term *predominantly*. This term will require professional judgment. The local government should consider whether the fund's primary purpose is to serve government, or whether the fund's primary purpose is to provide, and charge a fee for, goods and services and a government is just a "customer".

² Interfund payables and receivables should be eliminated unless the internal service fund is reported in as governmental activities and has transactions with business-type activities (and vice versa).

4.3.6.50 In the statement of activities the eliminations are necessary to remove the *doubling* effect of internal service fund activities. To accomplish that only the residual balances are reported. Internal revenues (except investment income) and expenses (except interest) should be netted. The difference should be charged back entirely or on pro-rata basis to the funds/functions that used services or acquired goods from that internal service fund (e.g., if the internal service fund reports net income, the entire amount should be charged back to the participating funds and would reduce their expenses related to the services and goods purchased from that fund).

Certain revenues and expenses are not internal and should not be eliminated, especially significant investment income or interest expense. In this case they have to be reported in the related categories in the statement.