

## SECTION XII--INTERPRETATIONS

### INTERPRETATIONS

#### ACCOUNTING INTERPRETATION NO. 1

**Subject: Accounting for Unemployment Insurance Benefits**

This interpretation is intended to clarify accounting for unemployment insurance benefits.

A municipality has two primary methods of insuring for unemployment benefits:

- (1) Pay into the state system on a regular basis.
- (2) Reimbursable or self-insured.

Procedures for Option Number 1:

Treat the employer contribution as an employee benefit. The rate is determined by current statutes (SDCL 61-1 through 61-6) with payments made to the state on a quarterly basis. After three years the state will evaluate the experience of individual entities and make rate adjustments accordingly.

Procedures for Option Number 2:

When unemployment benefits are paid to former employees, the previous employer is billed (at the end of each quarter) by the state system for the actual benefits paid to the applicants.

Thus, each municipality must estimate the amount of benefits to be paid and establish a rate. If an Unemployment Insurance Trust Fund is established the contribution should be treated as an operating transfer and the budget charged accordingly. The money is transferred to the trust fund and billings for actual unemployment benefits are disbursed from the trust fund. However, the municipality may elect to pay these actual benefits directly from the General Fund. Any liability for the next year's estimated benefits payable would only have to be recorded in the General Fund at December 31 each year if these estimated amounts are deemed to be material to the General Fund.

Employers choosing Option Number 1 may switch to Option Number 2 at the beginning of any taxable year, provided thirty days' notice is given to the state prior to the switch. Option Number 2 employers must remain reimbursable for a minimum of two years before switching. Employers switching from Option Number 2 to Option Number 1 may face a double liability for up to 18 months.

The object code for unemployment benefits is 416 and can be found in the Chart of Accounts.