ACCOUNTING INTERPRETATION NO. 5

Subject: Accounting for Unemployment Insurance Benefits

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

The school 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.

Therefore, each LEA must estimate the amount of constrained resources it feels is necessary to cover potential unemployment claims. This amount must be set aside, either as a one time lump sum amount or through periodic payments from the funds which incur the salary expenditures.

This constrained amount may be accounted for as an assigned fund balance in the General Fund of the LEA or in a separate internal service fund, the Unemployment Insurance Fund, fund number 56. In either case, the creation of the assigned amount should be processed as an expenditure of the fund which would normally incur the related salary expenditures. When actual unemployment benefits are paid out of either the General Fund or the Unemployment Insurance Fund, those transactions would be processed as expenditures/ expenses at that time as well.

The object code for unemployment benefits paid to the state as insurance is 250. The object code for self-insurance claims is 654.