

Accounting Bulletin #1999-01

SUBJECT: Accounting for Refunds of Expenditures

Effective Immediately

Date: January 8, 1999

This correspondence provides guidance on accounting for refunds of expenditures received by the LEA. Schools may receive refunds for expenditures incurred in either the current fiscal year or in a prior fiscal year. Additionally, refunds may be "recurring" or "non-recurring". These factors will govern how LEAs should report refunds of expenditures.

When a refund is received in the SAME YEAR that the corresponding expenditure was incurred, the refund should be netted against the expenditure. This accounting procedure shows the 'actual' cost incurred for the current year.

When the refund is received in a fiscal year subsequent to the fiscal year when the original expenditure was recognized, and the refund is NOT recurring in nature, the refund should be reported as a revenue. It is important to record non-recurring refunds received in a subsequent year as revenue and NOT to net down the expenditure, so that current year expenditures are not understated.

When a refund is received in a fiscal year subsequent to the fiscal year when the original expenditure was recognized, and the refund is recurring in nature, the refund should be netted against the current year expenditures. Refunds are considered recurring if they are normal and expected to happen from year to year. This accounting procedure recognizes that the cost of certain services, such as IU billings for special education, often are estimated during the year and that a yearly reconciliation will be done to determine the 'true' cost. When the refund is routine and recurring, netting the refund against the current year expenditures provides a better measure of the actual cost incurred during the year. If the refund is known before the books are closed for the current year, post the refund to the accounts of the year still open, not to the subsequent year.

There are three possible situations involved when a refund of an expenditure is received.

- 1) The refund could be received in the same year that the expenditure was incurred.
- 2) The refund could be received in a subsequent year and be of a "recurring" nature.
- 3) The refund could be received in a subsequent year and be of a "non-recurring" nature.

The accounting treatment differs depending upon which of the three situations is involved. This bulletin provides examples of each of the three types of situations involving refunds of expenditures.

It is important that reporting by LEAs be as consistent as possible to maintain comparability of data. When the Commonwealth combines data on a statewide level, it is critical that LEAs have reported similar transactions in a similar manner. Certain state subsidies paid to LEAs are based on this data as are reports sent to the United States Department of Education. Additionally, we need to abide by standards established by the Governmental Accounting Standards Board. This Accounting Bulletin is designed to further our goal of receiving accurate and consistent data from all LEAs.

Examples of Refunds of Expenditures

Example 1. Accounting for Current Year Expenditure Refunds

Example: \$1,000 cash was paid for an insurance policy, but later in the year it was determined that the cost should only have been \$800. The insurance company refunded the \$200 to the LEA.

Original entry for purchase of insurance -

2600-520 Expenditure	\$1,000	
0101 Cash		\$1,000

Refund of \$200 during the year for overpayment on this insurance policy

0101 Cash	\$200	
2600-520 Expenditure		\$200

The LEA will report total expenditures of \$800 for 2600-520 during the year.

Example 2. Accounting for Prior Year 'Non-Recurring' Expenditure Refunds

Example: In fiscal year 1997-98 a \$1,000 expenditure was incurred for the purchase of insurance. In 1998-99, a refund of \$100 was received from the insurance company after it was determined that the LEA had been overcharged for the purchase. This is not a routine experience with the insurance company.

In 1998-99 the entry would be -

0101 Cash	\$100	
6991 Refunds of Prior Year Exp		\$100

Examples 3 & 4. Accounting for Prior Year 'Recurring' Expenditure Refunds

Example 3.

The Intermediate Unit bills the LEA throughout the year based on an estimated level of services to be provided. The following year the IU calculates the actual fee for the prior year based on actual child count. The IU then routinely refunds (or adjusts) any amounts owed to the LEA for overcharges incurred in the prior year.

The LEA would record the recurring refund from the IU as follows -

0101 Cash	\$5,000	
1200-322 Expenditures		\$5,000

This entry offsets (nets down) the current year special education expenditures of the LEA. If the special education expenditure is not netted down in this manner, the regular year-to-year expenditure is overstated by the LEA.

The IU would record the recurring refund to the LEA as follows -

6944	\$5,000	
0101 Cash		\$5,000

Example 4.

Your AVTS routinely sends a refund to its member districts for any "excess" funds that it has at year end.

The LEA would record the recurring refund from the AVTS as follows -

0101 Cash	\$2,500
1300-560	\$2,500

The AVTS would record the recurring refund to the LEA as follows:

6946	\$2,500
0101 Cash	\$2,500

Consistent application of the procedures outlined in this Accounting Bulletin are necessary for proper accounting and to ensure the integrity of the LEAs financial data.

Questions regarding this bulletin may be directed to the School Finance staff within the Office of Comptroller Operations at Ra-Schlfm@pa.gov