



USFR MEMORANDUM NO. 161

TO: School District Administrators; County School Superintendents
FROM: Magdalene D. Haggerty, Office of the Auditor General
Rita Sauv, Arizona Department of Education
DATE: May 12, 1999
SUBJECT: E-rate Reimbursements

The Telecommunications Act of 1996 established the Universal Service Fund, known as the E-rate, to provide discounts to schools and libraries on the cost of telecommunications (local and long- distance phone service), Internet access, and network wiring within buildings. The Federal Communications Commission created a not-for-profit corporation, the Schools and Libraries Corporation (SLC), to administer the program. The SLC established procedures whereby each district and the SLC pays their respective share of the costs directly to the vendor. However, during the program's first year, the SLC did not release payments to vendors for services received prior to July 1, 1998, until after the end of fiscal year (FY) 1997-98, resulting in many districts paying vendors in full from the Maintenance and Operation (M&O) or Capital Outlay Fund for the services received. Participating vendors signed agreements to reimburse the districts when the SLC paid them. These vendors are now issuing refund checks to districts or crediting their accounts. Districts must reapply for E-rate monies each year, and it appears that SLC payments to vendors will continue to be made in the year subsequent to the year services are received. Therefore, districts should record E-rate transactions as follows.

Refund of E-rate Monies

Districts should accept only refunds from vendors, not credits, for several reasons. Taking a credit would obligate the district to make future purchases from the vendor in order to use the credit amount. Further, since E-rate reimbursements are often large dollar amounts, the expenditure of these monies will typically require competitive bidding. Therefore, the district cannot be certain that the same vendor would be awarded the bid. Finally, the district cannot be certain that the vendor will remain in business long enough for the credit to be used.

Proper Accounting Treatment of E-rate Monies

To properly account for the E-rate monies, districts should establish a separate E-rate Fund between Fund Codes 300-399 (Other Federal Projects). Districts should record the SLC portion of the cost as an expenditure and a revenue in this Fund. The M&O or Capital Outlay Fund, as appropriate, may

temporarily loan the E-rate Fund the monies needed to pay the vendor. When the refund is received from the vendor, the E-rate Fund must repay the M&O or Capital Outlay Fund for the loan amount. By establishing a separate E-rate Fund to recognize the discounted portion of the expenditure, only the district's portion of the expenditure is subject to the budget limits.

The following sample entries illustrate this method of accounting for E-rate monies for a district that received a 90 percent discount on \$100,000 of qualified telecommunication costs during the year.

M&O Fund (noncapital expenditures)

001-6531 Communications–Telephone	\$ 10,000	
001-0141 Due from Federal Projects Fund	90,000	
001-0103 Cash on Deposit with County Treasurer		\$100,000

To record the payment in full to the vendor, the district's portion of the expenditure, and the loan to the Federal Projects Fund.

E-rate Fund

3XX-6531 Communications–Telephone	\$ 90,000	
3XX-0145 Due from Federal Government	90,000	
3XX-0211 Due to M&O Fund		\$ 90,000
3XX-4900 Revenue on Behalf of District		90,000

To record the SLC's portion of the expenditure and related revenue, the amount due to the M&O Fund, and the amount due from the federal government.

When the refund monies are received from the vendor, the following entries are made.

E-rate Fund

3XX-0103 Cash on Deposit with County Treasurer	\$ 90,000	
3XX-0145 Due from Federal Government		\$ 90,000
3XX-0211 Due to M&O Fund	\$ 90,000	
3XX-0103 Cash on Deposit with County Treasurer		\$ 90,000

M&O Fund

001-0103 Cash on Deposit with County Treasurer	\$ 90,000	
001-0141 Due from Federal Projects Fund		\$ 90,000

Accounting for the Refund of FY 1997-98 Expenditures

Districts that established a separate federal projects fund for E-rate monies in FY 1997-98 should refer to the sample entries outlined above. However, many districts did not establish a separate fund in FY 1997-98, but instead recorded the full expenditure in the M&O or Capital Outlay Fund, thereby

subjecting the full expenditure to the general budget limit (GBL) and total capital budget limit (TCBL) in that year. If these districts were to deposit the refund into the M&O or Capital Outlay Fund when received in FY 1998-99, the expenditure of the refund monies would again be subject to these limits. Since the M&O and Capital Outlay Funds are levy funds, the refunded E-rate monies would serve only to reduce the amount of the required tax levy, as additional revenues do not mean increased spending capacity. This would eliminate any benefit gained from obtaining the E-rate monies. Therefore, districts that recorded the full expenditure in the M&O or Capital Outlay Fund in FY 1997-98 should establish a separate E-rate Fund between Fund Codes 300-399 (Other Federal Projects) and make the following entry to recognize the refund of prior year's expenditures.

E-rate Fund

3XX-0103	Cash on Deposit with County Treasurer	\$ XXX
3XX-4700	Grants-in-Aid from the Fed Gov't through Other Intermediate Agencies	\$ XXX

Impact on Excess Utilities

A.R.S. §15-910 allows districts to increase their GBL by the amount of excess utility costs paid out of the M&O Fund. The statute also requires that districts reduce current-year utility expenditures by any amount received as a refund of utility expenditures or as a rebate in energy-saving devices or services. The statute does not distinguish between refunds received in the same year of the expenditures or those received in a subsequent year. Some expenditures classified as excess utilities are eligible to be discounted through the E-rate program. Therefore, although districts can deposit E-rate monies in a federal projects fund and spend these monies without restriction, the district must apply any amount received representing a refund of utility expenditures that were initially included in the calculation of excess utilities as a reduction of the current-year utility expenditures. The applicable portion of the refund should be entered on the FY 1998-99 Expenditure Budget, Work Sheet N, line I.B. Additionally, districts that budgeted for E-rate expenditures in the M&O Fund in FY 1998-99 that will now be budgeting those expenditures in the E-rate Fund must reduce the estimated amount of utility expenditures reported on Work Sheet N, line I.A, as applicable.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

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