

American Library Association

Prepaid Expenses Policy

Effective 9/1/2022

Purpose: This policy is developed to provide a threshold for using the prepaid expense account and instructions on recording multiyear prepaid expenses.

General: Expenses are recorded in the accounting period in which the expense pertains; some vendors issue invoices that benefit multiple months within a fiscal year or over multiple fiscal years. For Accounting purposes, any prepaid expenses are recorded in the Statement of Financial position of the Association and labeled as Prepaid Expenses, which are then amortized by Accounting over the accounting periods benefiting from the expense.

Exception: Event-related expenses, such as conferences paid in advance of the fiscal year the event is held, will be charged to the prepaid account regardless of the amount.

Budgeting: Budget Managers need to keep this policy in mind when they record the allocation of their expenses in the Prophix system, or they will encounter variances of actual to budget.

Definition: Prepaid Expenses are future expenses that are paid in advance. On The balance sheet, prepaid expenses are first recorded as an asset. As the benefits are realized over time, the amount is recorded as an expense.

1. For an expense to be recorded in the prepaid account, it must be over \$5,000. If an invoice is \$5,000 or less, the entire amount will be recorded as an expense in the current fiscal year without a monthly allocation.
2. If an invoice covers multiple years, the Unit Manager should arrange with the vendor so that the invoice corresponds to ALA's fiscal year. Often, Accounting might request the department which initiated the invoice to ask the vendor to match the invoice to our fiscal year. Vendors will adhere to this request by creating two invoices: one through August in the year of implementation and the next from September to August in the following years to match invoices to the fiscal year.
3. The Accounting Department will calculate the prorated expense schedule for invoices covering multiple fiscal years.
 - a. Use the months the invoice pertains to, divided by 12, to derive the monthly cost. Then multiply the result by the number of months it covers in the fiscal year.
 - b. Example: An invoice is received for \$24,000 that covers July 1, 2022, through June 30, 2023. This calculates to \$2,000/month, so in FY 22, we will record two months (totaling \$4,000) and allocate the remaining \$20,000 in FY 23. The \$4,000 will be expensed in FY 22, and the remaining \$20,000 will be expensed in FY 23.
 - c. The \$20,000 will be recorded as an expense Sept-May 24.

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- d. Example: An invoice is received for \$4,000 and covers September 1, 2022- August 31, 2023. The entire amount will be recorded in September 2022.