

Accounting Bulletin #1998-01

SUBJECT: Accounting for Pass-through Grants and Other Shared State and Federal Grants Effective Beginning Fiscal Year 1998-99

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The Governmental Accounting Standards Board (GASB) issued Statement #24 Accounting and Financial Reporting for Certain Grants and Other Financial Assistance in June 1994. This statement requires most grants passed onto a secondary recipient to be recognized as a revenue and expenditure on the primary recipient's financial records. The GASB studied these pass-through funds and determined that most primary grant recipients have some degree of administrative and/or financial responsibility for amounts passed onto a secondary recipient. Having come to this conclusion, GASB Statement #24 was issued which requires most grant money received and passed onto another secondary recipient to be recorded as an expenditure.

As a general rule, when an LEA receives funds to be passed on to a secondary recipient, an expenditure should be recorded to 2990-899. In those infrequent cases where there is no administrative or financial involvement by the recipient LEA, no revenue or expenditure should be recorded. In those cases, balance sheet accounts such as, cash and due to other local educational agencies, are the accounts required. The types of funds referenced by GASB Statement #24 are those received by an LEA for the express purpose of transferring them to or spending them on behalf of a secondary recipient.

The statement is not to be interpreted to mean any payment made to another LEA is to be treated as a pass-through type of expenditure. Transportation services purchased from another LEA, tuition paid to another LEA or contracted services purchased from another LEA for example, are not to be recorded to 2990-899-Pass Through Funds, but rather recorded to the appropriate function and object code for the service procured from that LEA.

Questions regarding pass-through grants center around how secondary recipients should distinguish between pass-through grants and reimbursements, and whether a secondary recipient of federal money is a sub-recipient subject to Single Audit requirements or simply a contractor/vendor performing services for a fee or reimbursement. This bulletin provides a few examples of financial arrangements between intermediate units and school districts, and consortium leaders and school

districts in a Question and Answer format. Independent judgment must ultimately be used in determining the "substance" of each transaction. It is very important that all accountants and school business officials identify and report grant funds and contracted services correctly. Incorrect reporting can have a significant effect on the amount of revenue and expenditures reported on your school's annual financial report. Since AFR data is used in calculating your restricted indirect cost rate and tuition rate, incorrect classifications could also have a material effect on these certifications.

A. Examples Using an IDEA Grant

These funds are received and expended by Intermediate Units to supplement the Special Education services and programs throughout the Intermediate Unit. The following are some common types of transactions involved in administering the IDEA grants:

1. The Intermediate Unit staff is providing services to school district students or staff members. The Intermediate Unit hires staff to provide educational services to school district children or support services to district teachers and administrators. There are no financial transactions between the Intermediate Unit and member school districts, however, school district students and/or staff members receive services from the Intermediate Unit staff. These services are funded by IDEA grants.

QUESTION: Should member districts recognize a revenue and/or expenditure for the services provided their students and teachers? Why or Why not?

ANSWER: Yes. Even though no transfer of funds takes place, the nature of the funding does not change in that it has been calculated as part of each school's portion of IDEA funding. How the school chooses to receive these funds does not change this fact. The school district should record the calculated revenue to account code 6832 (use this for IDEA revenue only, use 6831 for all other federal pass through money).

QUESTION: Is the school district a sub-recipient of federal IDEA funds or a contractor in this example?

ANSWER: Yes, the member district should account for the associated expenditures as federal even though no payments are changing hands.

2. The Intermediate Unit provides funds from the IDEA program to a school district based on documentation received from that school district on specific costs incurred or to be incurred by the district to perform a component of the program responsibilities. The costs incurred or to be incurred are necessary to fulfill an IDEA program requirement.

QUESTION: Should member school districts recognize a revenue and/or expenditure for the funds provided their students and teachers? Why or Why not?

ANSWER: Yes. In this example, the school district takes responsibility for operating a portion of the program in accordance with program requirements. Therefore, the district should recognize revenue and the appropriate expenditures. In this example, the school district is either incurring costs on behalf of the program or operating a portion of the IDEA program.

QUESTION: If your answer is yes, how should the school district record this transaction?

ANSWER: Revenues received by the school district from the IU should be recorded to account 6832-Federal IDEA Revenue Received as pass through revenue. (Other federal revenue received as pass through should be recorded to function 6831). Expenditures should be recorded in the appropriate expenditure sub-function/service area and funding source codes. These expenditures are federal expenditures and should be classified as federal expenditures on your annual financial report and Schedule of Expenditures of Federal Awards.

QUESTION: Is the school district a sub-recipient of federal IDEA funds or a contractor in this example?

ANSWER: Yes. The school district is a sub-recipient of federal funds in this example. The substance of the relationship between the IU and the school district must be evaluated to make this determination because the substance of the relationship is more important than the form of the agreement. Governmental entities such as public schools are normally classified as sub-recipients because in most instances there are program compliance and performance measure issues. On the contrary, a contractor/vendor is not usually responsible for program compliance requirements or performance measures. Contractors are generally responsible for providing goods or services on a one-time or limited-term basis where the performance is related to the administrative support of the grant. Contractors may be held to performance standards consistent with program requirements as set forth in the contractual agreement, but this alone does not classify the contractor/vendor as a sub-recipient.

QUESTION: How should the IU account for this transaction?

ANSWER: The IU should record the full amount of IDEA money received as federal revenue, and the amount(s) passed to the district as an expenditure in service area account #2990-Pass-Thru Funds, object 899. The Intermediate Unit provides IDEA money to the school district based on an allocation, as requested by the district. The school district expends the money to carry out certain objectives of the

IDEA program and, in turn, reports the specific expenditures to the Intermediate Unit.

3. The Intermediate Unit must publish IDEA literature as required by the program and does not have the facilities in-house to do the printing. The IU gets bids and finds that a neighboring school district can provide the services at the lowest price. The district performs the service and is paid for the service.

QUESTION: Should member school districts recognize a federal revenue received from another LEA or a reimbursement for the services provided for the IU? Why or Why not.

ANSWER: No. The district has a local revenue in the amount received for printing services in this example. Although governmental entities are normally sub-recipients, in this example, the school district is providing a one-time service outside its normal day-to-day operations or purpose. The school district is taking an order and filling it similar to the way a local vendor would perform the service. There is no transfer of federal program responsibilities, and therefore no federal revenue.

QUESTION: Is the school district a sub-recipient of federal IDEA funds in this example?

ANSWER: No.

QUESTION: How should the IU account for this transaction?

ANSWER: The IU should record a contracted services expenditure for printing. There was no pass through arrangement in this example.

QUESTION: How would the IU account for this transaction if the lowest bidder was a local print shop?

ANSWER: The same entry would be made by the IU if the lowest bidder was a local vendor.

B. Examples Using an Eisenhower Math and Science Grant

Many school districts elect to combine their allocation of grant revenue with other school districts' grant revenue so there is only one grantee to administer the program for several school entities. This is often referred to as a consortium. Consortium arrangements can often provide greater services to staff members because of the combination of funds.

1. The consortium school districts receive teacher grants from the administering school district for specific educational proposals.

QUESTION: Is the school district a sub-recipient of grant funds in this example?

ANSWER: Yes. The administering school district is passing part of the grant to member districts for teacher proposals.

QUESTION: Should consortium member school districts recognize a revenue for the grants provided by the consortium leader? Why or Why not?

ANSWER: Yes. The money received from the administering school district is part of a federal grant. The money and responsibility for program compliance is being transferred to the consortium member district.

QUESTION: If your answer is yes, how should the school district record this transaction?

ANSWER: The school district should record the transfer of money for teacher grants in revenue account 6831- Federal Revenue Received from Other PA Public Schools. Expenditures should be classified as federal expenditures with the appropriate sub-function/service area and funding source codes.

QUESTION: How should the consortium leader account for this transaction?

ANSWER: The consortium leaders/administering school district should record the full amount of the grant received as federal revenue, and the amount(s) passed to member districts as expenditures in service area account #2990-Pass-Thru Funds, object 899.

2. Consortium members are reimbursed for program expenditures they incurred on behalf of the administering district. For example, a member school district elects to provide a staff development program for themselves or other consortium members.

QUESTION: Is the school district a sub-recipient of grant funds in this example?

ANSWER: Yes. They have agreed to provide part of the services required under the program guidelines.

QUESTION: Should consortium member school districts recognize a revenue or reimbursement for the services provided on behalf of the administering district (consortium leader)? Why or Why not?

ANSWER: Yes. In this example, it is necessary for the member school districts to record the revenues received from the consortium leader in revenue account 6831-Federal Revenue Received from Other PA Public

Schools. Expenditures should be classified as federal expenditures using the appropriate sub-function/service area and funding source codes. The member school districts are carrying out a portion of the program requirements for the administering district. This is not merely a reimbursement because the member school district has agreed to perform part of the program requirements.

QUESTION: How should the consortium leader account for this transaction?

ANSWER: The consortium leader/administering district should record the full amount of the grant received as federal revenue, and the amount(s) passed to member districts as expenditures in service area account #2990-Pass-Thru Funds, object 899.

3. Below is a second example of a consortium member reimbursement for program expenditures which illustrates a pure reimbursement. A member district purchases 2 personal computers with their Title 6 program allocation. It is easier for the district to make the purchase from their location than to have the consortium leader purchase the computers. The computers are an allowable expenditure. The consortium leader retains all program responsibilities.

QUESTION: Is the school district a sub-recipient of grant funds in this example?

ANSWER: No, the school district is not a recipient of federal grant funds. There is no transfer of program responsibilities in this example. The school district is merely acting as an agent of the consortium leader to purchase the computers. This is an example of a local fund reimbursement.

QUESTION: Should the consortium member school districts, acting as an agent for the consortium leader, recognize a revenue or reimbursement for the services provided on behalf of the administering district (consortium leader)? Why or Why not?

ANSWER: The member school district should recognize a reimbursement for educational expenditures in account #6944-Receipts from Other LEAS in PA-Educational. The reimbursement should not be recorded as a contra-expenditure. Expenditures should not be classified as "federal" expenditures on the district's AFR or Schedule of Expenditures of Federal Awards, because the consortium leader will have the expenditures classified as federal expenditures on their AFR and Schedule. School districts should use the appropriate sub-function/service area and local funding source codes when recording the purchase of these computers.

QUESTION: How should the consortium leader account for this transaction?

ANSWER: The consortium leader/administering school district should record the full amount of the grant received as federal revenue and the amount paid to the member district as a federal expenditure in the appropriate sub-function/service area account, and federal funding source code. A pass-through expenditure account should not be used by the consortium leader in this example.

QUESTION: How would this transaction be handled if the grantee purchased equipment, such as computers, for the school district?

ANSWER: In most instances the equipment is on loan to the school district while the grantee has responsibility for capitalizing the equipment, tracking the inventory, and recording the grant revenue and equipment purchase expenditure. The school district is not expected to record the receipt of revenue or equipment expenditure because the grantee owns the equipment. NOTE: Other similar grants, such as Carl Perkins Grants, should be recorded using the general guidelines above. The primary grant recipient should report the revenue received in the appropriate federal revenue account. Sub-recipients of federal funds should use revenue account 6831-Fed'l Revenue From Other PA Public LEAs, as illustrated above, or 6839-Federal Revenue Received From Other Intermediary Sources, while sub-recipients of state and local funds should use the appropriate revenue accounts in the 6810-Revenue From Local Government Units and 6820-State Revenue From Intermediary Sources account series.

Additional General Questions

QUESTION: How will PDE know who gets allocations and who doesn't?

ANSWER: Primary grant recipients are required to report pass-through amounts by LEA as well as grant expenditures to the respective PDE-program offices. If the program office administrator does not specify a specific format or report for filing this information we recommend sending the following information in a table format: Name of School, Allocation, Amount Passed to the School, Amount Spent on Behalf of the School.

QUESTION: Is there a need for PDE to know how much money is passed to a secondary recipient and how it is spent?

ANSWER: Yes. Most program offices and independent auditors will expect the primary grant recipient be accountable for the appropriateness of the expenditures incurred by the sub-recipient LEA.

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