



## *Statewide Accounting Policy & Procedure*

**Accounting Manual Reference:**

Section: Inflows of Resources  
Sub-section: Revenues - Grants and Other Financial Assistance

**Effective Date:** 03/25/2016**Revision Date:** 03/25/2016**Index:**[Policy Summary](#)[Accounting Policy Requirements](#)[Accounting Treatment](#)[Authority](#)[Applicability](#)[Definitions](#)**Policy Summary:**

Accounting for grants and other financial assistance from the federal government and other sources requires certain specific considerations beyond the provisions included in the Revenues, Receivables, Unearned Revenues and Unavailable Revenues - General policy.

**Accounting Policy Requirements:**

Organizations included in the State reporting entity are required to maintain their accounting records in a manner which will provide for the preparation of GAAP financial statements and/or budgetary statements. Day-to-day operations may be accounted for using one basis of accounting (a budgetary reporting basis) and year-end reporting information may be prepared to accommodate reporting on a different basis of accounting (a GAAP basis).

As governmental, proprietary and fiduciary funds use different bases of accounting to record and report their transactions, the accounting treatment of revenues, receivables, unearned and unavailable revenue transactions may be different for different fund types. GAAP requires that revenue receivable unearned and unavailable revenue transactions are recorded and reported based on the type of transaction. The types of transactions related to grants and other financial assistance are described below.

**Recognition and Measurement**

Types of Transactions – As described in the Revenues, Receivables, Unearned Revenues and Unavailable Revenues – General policy, the State receives revenues related to certain types of exchange, exchange-like and nonexchange transactions. Grants and other financial assistance generally fall into the government-mandated nonexchange and voluntary nonexchange transaction types.

- *Government-mandated nonexchange* transactions result when a government at one level provides resources to a government at another level. The provider government requires the recipient government to use those resources for a specific purpose or program. Examples include federal grants to states.

- *Voluntary nonexchange transactions* result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties. The provider frequently establishes purpose restrictions and eligibility requirements. Examples include certain grants and entitlements and donations.

Recognition Criteria – The recognition criteria included in the Revenues, Receivables, Unearned Revenues and Unavailable Revenues - General policy apply to grants and other financial assistance.

### ***Basis of Accounting***

As noted in the Accounting Policy Requirements section above, the basis of accounting utilized for recording day-to-day transactions of a reporting organization's fund may be different than the basis of accounting used by this fund's activities for GAAP reporting purposes. The most common example is activity recorded in the Budget Fund using the budgetary reporting, statutory basis of accounting to record day-to-day transactions and reporting those same transactions in GAAP reports using the modified accrual basis of accounting.

Statutory Basis – Statutory basis concerns related to grants and other financial assistance center around the differences in statutory basis and modified accrual basis for revenues and receivables associated with:

- *Expenditure-driven grants* – On the statutory basis, these transactions are recorded to the appropriate fund source within program when the qualifying expenditures have been recorded. On the statutory basis, revenues, accounts receivable and expenditures associated with expenditure-driven grants requiring purchase orders are recorded when purchase orders or other contractual obligations to procure goods or services have been executed (e.g., *when encumbered*). This revenue/receivable recognition convention varies from the GAAP modified accrual basis, described below, where revenue is based on *expenditure* recognition, rather than *encumbrance* recognition. In addition to the encumbrance difference, under the GAAP modified accrual basis, other eligibility requirements have to be met for the resource to be considered to have been earned before revenue can be recognized. These are described under the GAAP modified accrual basis, below.

On the statutory basis, if expenditures have been encumbered and an asset (e.g., cash) has been received (is available), revenue is recognized. On the GAAP modified accrual basis, as the obligation has only been encumbered (is not yet earned), revenue would not be recognized and the asset received would be offset by unearned revenue or unavailable revenue (deferred inflow of resources) depending on the level at which eligibility requirements have been met at the time of the receipt of the asset.

- *Grants and other financial assistance that are not expenditure-driven grants* – Grants and other financial assistance that are not expenditure-driven grants revenues and receivables are to be recorded to the appropriate fund source within the program when cash is received on the statutory basis, as opposed to the GAAP modified accrual basis criteria of the funds having to be earned, measurable and available prior to recognition. Therefore, by definition, there would be no unearned revenues or unavailable revenues associated with grants and other financial assistance that are not expenditure-driven grants on the statutory basis.

Cash Receipts and Disbursements Basis – The State's Revenue Collections (General) Fund utilizes the cash receipts and disbursements basis of accounting. Grants and other financial assistance do not generally meet the definition of revenue collections and therefore are not recorded in the State's Revenue Collections (General) Fund.

**Modified Accrual Basis** – In general, under the GAAP modified accrual basis of accounting (which is utilized for governmental fund reporting), receivables are recognized when the transaction is considered complete, that is, when the organization has an enforceable legal claim to the resources, regardless of when actual revenues are recognized. If actual revenues are not recognized, the offset to the receivable would be either unearned or unavailable revenues. Recognition of receivables requires meeting all eligibility requirements and certain other grant requirements (see below). Revenues are recognized in the accounting period when they become earned, measurable and available, net of any uncollectible accounts, where earned means that all eligibility requirements have been met. For the State of Georgia, the availability period is 30 days after the fiscal year ends, except for federal grant revenues, which are considered available if collection is expected within 12 months after year end. Unearned revenues would be recorded when amounts are received and time requirements are met, however, not all other eligibility requirements have been met. Unavailable revenues (deferred inflow of resources) would be recorded for amounts for which all eligibility requirements have been met, however funds are not available. Unavailable revenues would also be recorded for amounts received and all eligibility requirements, except time requirements, have been met. Specific considerations for certain types of revenues, receivables, unearned and unavailable amounts connected with grants and other financial assistance are below:

- *Intergovernmental Revenues*
  - **Expenditure-driven Grants** (reimbursement-type grants) make up a substantial portion of the federal assistance received by the State. Recipients of reimbursement grants obtain a claim to resources by incurring qualifying expenditures. Such grants frequently make eligibility contingent upon some form of other grant requirements, such as, matching, maintenance of a required level of effort, etc., by the recipient. A receivable and revenue should be recognized only when both (qualifying expenditures and compliance with contingent requirements) criteria have been met. By definition, unearned revenues do not generally exist related to expenditure-driven grants. Unavailable revenues would be recognized when the circumstances described, above apply.
  - **Entitlements and Shared Revenues** (typically formula grants), generally, are based on formulas (e.g., population, school enrollment, etc.). Receivables and revenue should be recognized as soon as they are susceptible to accrual (measurable and available) and all eligibility requirements are met. Constraints on how grant resources may be used (purpose requirements) do not constitute an eligibility requirement and do not affect revenue recognition. Entitlement and shared revenues should not be recognized in the current year if associated with the subsequent fiscal year, even if they are collected within the current fiscal year. Revenues should only be recognized for the period they are intended to finance. Entitlements and shared revenues, collected in a fiscal year before the fiscal year they are intended to finance should be reported as a liability, unearned revenue. Unavailable revenues would be recognized when the circumstances described, above apply.
  - **Pass-through Grants** are grants which are received by a governmental organization to transfer or spend on behalf of a secondary recipient. All cash pass-through grants received by an organization should be reported in its financial statements. As a general rule, these grants should be recognized as revenues and expenditures or expense in a governmental, proprietary or trust fund. Revenues should be recognized when all eligibility requirements have been met and the resources become available, which typically is considered to occur when the resources are, in fact, transmitted to their intended final recipient. These criteria apply whether the organization is the original recipient or a subrecipient of the grant funds. Unearned or unavailable revenues would be recognized when the circumstances described, above apply.

Such grants should be accounted for in an agency fund (in the fund range of 6xxxx) **only if** the organization is operating simply as a “cash conduit”. To operate as a “cash conduit”, an organization must not have any secondary recipient monitoring requirements, must not have to determine eligible subrecipients and must not have any discretion in how the grant is allocated. In addition, the organization must not have any direct financial involvement with the grant program such as a requirement to finance some direct program cost (e.g., matching requirements) or have any exposure to liability for disallowed costs.

- *On-behalf Payments for Fringe Benefits and Salaries* are direct payments made by one entity on-behalf of the employees of another entity to a third party. Such payments would include on-behalf payments to pension plans, employee health and life insurance plans and salary supplements (paid directly to another entity employee). These types of payments may be made not only on-behalf of paid employees, but also for volunteers, such as payments for health insurance or life insurance for volunteer workers. On-behalf payments include payments made by governmental entities on-behalf of nongovernmental entities and payments made by nongovernmental entities on-behalf of governmental entities. There are generally no unearned or unavailable revenues associated with on-behalf payments.
  - **Employer Organizations** – An employer organization should recognize revenue and expenditures for on-behalf payments for salaries and fringes, even if the employer is not obligated in any way for the payment. The amount that should be recognized as revenue should equal the amount that the third-party recipients received and amounts receivable at the end of the fiscal year.

State employer organizations should obtain information about the amount of the on-behalf payments from the paying entity or third party recipient. If such information cannot be obtained entries should be made based on the best estimate of the amount. The revenues and expenditures associated with on-behalf payments are reported on the modified accrual basis for GAAP reporting only and are not reported on the statutory basis.

- **Paying Organizations** – Paying organizations should classify the expenditures for on-behalf in the same manner that it accounts for similar grants to other entities.
  - **On-Behalf Payments within the State Reporting Entity** – On-behalf payments made by and for organizations included within the State reporting entity should be recorded as operating transfers on the modified accrual basis for GAAP reporting. Under the statutory basis, however, such payments should be recorded as revenues and expenditures.
  - **Disclosure** – Employer organizations are required to disclose, in the notes to the financial statements, the amounts recognized for on-behalf payments for fringe benefits and salaries. In addition, for on-behalf payments that are contributions to a pension fund for which the employer government is not legally responsible, the employer government should disclose the name of the plan that covers its employees and the name of the entity that makes the contributions.
- *Federal “food stamp” program* – GAAP requires State governments utilizing a food stamp program electronic benefits transfer system to record revenues and expenditures when the underlying transaction (e.g., the food purchase) occurs. The reason being that the federal food stamp program functions essentially as a reimbursement grant and, as such, should be recognized as revenue as soon as eligibility requirements are met. The revenues and expenditures associated with the federal food stamp program are reported on the modified accrual basis for GAAP

reporting only and are not reported on the statutory basis. There are generally no unearned or unavailable revenues associated with the food stamp program.

- *Contributions of Agricultural Commodities to School Lunch Programs* – The U.S. Department of Agriculture contributes agricultural commodities (surplus agricultural products) to qualifying school lunch programs as a form of federal assistance. Typically, contributed commodities are reported as an asset and revenue upon receipt. There are generally no unearned or unavailable revenues associated with contributed commodities.

**Accrual Basis** - Under the accrual basis of accounting, receivables are recognized when the transaction is considered complete and revenues are recognized when measurable and earned. Revenues are recorded net of any uncollectible accounts. The accrual basis of accounting is used for the State's government-wide financial statements as well as for proprietary and fiduciary funds.

**Accounting Treatment:**

The accounting treatment relevant to Grants and Other Financial Assistance is contained within the Revenues & Receivables, Expenditures, Payables & Encumbrances, Equity or other sections of the Accounting Policy Manual.

**Authority:**

- GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*
- GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
- GASB Statement No. 34, *Basic Financial Statements*
- Georgia Constitution, Article III, Section IX, Paragraph II (b): *The General Assembly shall annually appropriate those state and federal funds necessary to operate all the various departments and agencies.*
- Georgia Constitution, Article III, Section IX, Paragraph V: *Other or supplementary appropriations*
- 2 CFR Chapter II, Part 200, *Uniform administrative requirements, cost principles, and audit requirements for Federal awards*
- GASB Codification, Section 2300, *Notes to Financial Statements*
- GASB Codification, Section 2400, *Budgetary Reporting*

**Applicability:**

This accounting policy applies to all organizations included in the State of Georgia reporting entity. Refer to the *Management Responsibilities* policy for a summary of general financial reporting responsibilities.

**Definitions:**

**Accounts Receivable** – A current asset account reflecting amounts due from individuals, firms, corporations, or other organizations for goods and services furnished by a government.

**Availability Criterion** – Principle under the modified accrual basis of accounting that requires revenues to be recognized only when they are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**Availability Period** – A specified period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized in accordance with the availability criterion of modified accrual accounting.

**Government-mandated Nonexchange Transaction** – Situation where a higher level government requires performance of a lower level government and provides it full or partial funding to do so.

**Inflow of Resources** – Acquisition of net assets by the government that is applicable to the reporting period.

**Measurable** – When an amount can be accurately determined or reasonably estimated.

**Nonexchange Transaction** – A transaction in which a government (including the federal government, as a provider) either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) from another party without directly giving equal value in exchange.

**Revenues** – (1) Increases in the net current assets of a governmental fund type from other than expenditure refunds, operating transfers, and "other financing sources." (2) Increases in the net total assets of a proprietary fund type from other than expense refunds and transfers.

**Unavailable Revenue** – A deferred inflow of resources that represents amounts earned, but which are not available. These are generally offset by accounts receivable.

**Unearned Revenue** – A liability that represents amounts received, but not yet earned.

**Voluntary Nonexchange Transactions** – Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (e.g., certain grants and private donations).