

STATE OF OKLAHOMA
OFFICE OF MANAGEMENT AND ENTERPRISE SERVICES
GAAP CONVERSION MANUAL

D. FEDERAL GRANT/ENTITLEMENT RECEIVABLES AND UNEARNED REVENUE
CONVERSION PACKAGE

June 2022

I. PURPOSE AND OBJECTIVES

Some state agencies receive assistance from the federal government in grants and entitlements to support specific programs. Federal funds may be used for:

- * Program expenses and operating expenses
- * Acquisition or construction of fixed assets
- * Indirect costs associated with administering the programs.

Amounts that your agency receives from the federal government are grant and/or entitlement revenues. Amounts that your agency distributes to other state agencies or non-state parties, are grant and/or entitlement expenditures.

Only PRIMARY recipients (see key terms in Part III) of grant/entitlement funds within state government will report amounts in this conversion package. If your agency receives federal grant funds from another state agency or a non-state agency, you are a subrecipient. If you are a subrecipient receiving federal grant funds from another state agency, you should not report the receipt of the federal funds in this conversion package. Doing so would result in the revenue being reported twice. If you are a subrecipient receiving federal grant funds from a non-state agency (i.e., the primary recipient is not within state government), you should report the receipt of the federal funds in this conversion package.

The federal government funds state agency programs in different ways:

- * Some grants provide funds on a cost-reimbursement basis; agencies incur costs and then bill the grantor for reimbursement.
- * Some programs provide for advance payments or permit agencies to draw against letters of credit as they incur eligible expenditures.
- * Entitlement programs award specific amounts for particular accounting periods.

Individual state agencies may:

- * Distribute funds to other state agencies.
- * Distribute funds to non-state organizations such as municipalities, counties, non-profit organizations.
- * Expend grant/entitlement program funds directly for benefits to individuals or supplies, etc. or pay indirect costs.

GAAP requires the state's financial statements to report:

- * Grant/entitlement revenue for the year ended June 30.
- * Grant/entitlement receivables at June 30.
- * Unearned revenue for certain grants.

II. AGENCY ACTION REQUIRED

- A. **Complete the Accounts Payable and Encumbrance Conversion Package before you work on the Federal Grant/Entitlement Receivables and Unearned Revenue Conversion Package.** Some of the information classified as accounts payable will affect the amounts included in this conversion package.

- B. Carefully read the key terms in Part III.
- C. Do not report any Medicaid, Title XIX amounts in this conversion package.
- D. The Grant/Entitlement Receivables and Unearned Revenue Summary form (summary) should reflect amounts as of close of business on June 30.
- E. Round all dollar amounts to the nearest whole dollar.
- F. All working papers are subject to audit by the State Auditor & Inspector (SA&I). The agency is required to keep a copy of the completed summary form and all associated working papers for three years after the completion of the SA&I audit.
- G. The person who completes and signs the summary form should keep a copy. A financial reporting analyst will contact this person if there are any questions.
- H. If needed, call your agency's financial reporting analyst for guidance.
- I. Return the completed summary form to your OMES financial reporting analyst by e-mail **no later than the due date shown on the form.** **If you can return it earlier, please do so.**
- J. If the summary form does not apply to your agency, check the box in the upper left portion of the summary, complete item (2) and return it to OMES.

III. KEY TERMS

- A. Basis of Accounting for Grant/Entitlement Revenue - The modified accrual basis of accounting determines when to recognize revenue, receivables, and unearned revenue in the financial statements. The modified accrual basis of accounting recognizes revenue when it is both measurable and available.
- B. Grant - A contribution or gift of cash or other assets from the federal government to be used or expended for a specified purpose, activity, or facility.
 - Capital Grant - Grant restricted by the federal government for the purchase and/or construction of fixed assets.
 - Operating Grant - Grant restricted to operating purposes or that may be used for either capital or operating purposes at the discretion of the grantee.
- C. Entitlement - An entitlement consists of cash or other assets that the federal government contributes to the state. Entitlement programs base awards on allocation formulas contained in applicable laws. Entitlement programs award specific amounts for particular accounting periods and impose few real restrictions. Once the state receives an entitlement award, only the state's failure to follow prescribed regulations will cause loss of the funds.
- D. Assistance Listing Number - Assistance Listing (AL), formerly referred to as Catalog of Federal Domestic Assistance or CFDA, includes a specific reference number for most federal programs. Each assistance program is assigned a five-digit program identification number: the first two digits identify the federal department or agency that administers the program, and the last three numbers are assigned in numerical sequence.
- E. Primary Recipient - The agency that initially receives funds from the federal government and who is accountable to the federal government for the funds.
- F. "Pass-Through" Funds - "Pass-through" funds are distributed from the primary recipient to other state or non-state organizations (end recipients) in the form of a grant/entitlement (not a payment for goods or services).

- G. Grant/Entitlement Revenue - Grant/Entitlement Revenues are amounts that the state receives from the federal government. Depending on the type of grant, revenue may have accrued for which the agency has not yet received the cash. Amounts that your agency receives from other state funds or agencies are NOT considered grant/entitlement revenues for the purposes of this package. However, amounts that your agency receives from a non-state entity would be considered grant/entitlement revenues.
- H. Grant/Entitlement Receivables - Grant/Entitlement Receivables can be defined as revenue that is measurable and available, but the actual cash payment has not been received at June 30. A grant/entitlement receivable is often accrued when an allowable grant/entitlement expenditure is incurred.
- I. Unearned Revenue - Unearned Revenue is recorded for grant funds on hand that have not been earned because grant requirements have not been satisfied. This would apply to certain cash advance and letter-of-credit grants at June 30.

IV. SPECIFIC INSTRUCTIONS

- A. Preparation of the Data - Prior to completing the Grant/Entitlement Receivables and Unearned Revenue Summary form, list by AL number the federal grant/entitlement revenue your agency receives. Do not include any Medicaid, Title XIX funds, or grants received from another state agency. **Do not include amounts related to unperformed contracts for goods or services. Only report grant and entitlement receivables where contract eligibility requirements (incurrence of allowable costs) have been met.**

Form D-2 is included in this package to assist you in computing your agency's grant receivables and unearned revenue. It is optional and need not be returned to OMES. If you choose to use the form, please retain it with your records and any other documents that support your calculations.

- 1. Complete the Accounts Payable and Encumbrance Conversion Package, and determine the payables related to each grant. Some payables represent expenditures that will be paid or reimbursed with federal grant funds. These payables would also be recorded as grant/entitlement receivable if:
 - * You are a primary recipient and the payables represent allowable grant/entitlement expenditures which will be paid with federal funds, or
 - * You are a subrecipient receiving federal grant funds from a non-state agency and the payables represent allowable grant/entitlement expenditures which will be paid with federal funds.
- 2. Determine the grants and entitlements by AL number that are classified as reimbursement-type grants, grants using cash advances and letters of credit, or entitlements.
- 3. Determine specific grant requirements that must be satisfied before revenue may be recognized.
- 4. Review the key terms section of this conversion package carefully before you attempt to complete the forms.
- 5. The following information will help you determine the amounts of grant/entitlement receivables and unearned revenue to report in this conversion package:
 - a. GRANT/ENTITLEMENT RECEIVABLES

Reimbursement-Type Grants - Report grant receivables at June 30 if your agency:

- i. Incurred direct/indirect grant costs during the fiscal year. That is, your agency either

* recorded allowable grant expenditures during the fiscal year or

- * reported accounts payable that relate to grants in the Accounts Payable and Encumbrance Conversion Package (discussed in A.1.)
- ii. Met all related grant requirements (such as matching requirements), and
- iii. Will receive the related reimbursement from the federal government after June 30.

Grants Using Cash Advances and Letters of Credit - Report grant receivables at June 30 if your agency:

- i. Incurred direct/indirect grant costs during the fiscal year. That is, your agency either:
 - * recorded allowable grant expenditures during the fiscal year or
 - * reported accounts payable that relate to grants in the Accounts Payable and Encumbrance Conversion Package (discussed in A.1.)
- ii. Met all related grant requirements (such as matching requirements), and
- iii. Will receive the related cash or reimbursement from the federal government after June 30.

Entitlements - Report entitlement receivables at June 30 if:

- i. The entitlement is for a period that began during the fiscal year ended June 30, such as the federal fiscal year, and
- ii. You will receive the related cash after June 30.

b. UNEARNED REVENUE

Report unearned revenue if you have drawn down or received grant cash at June 30 that represents neither cash expenditures nor accounts payable. Do not record unearned revenue for entitlement or reimbursement grants.

B. Completing the Grant/Entitlement Receivables and Unearned Revenue Summary Form

Please note that the Accounts Payable and Encumbrance Conversion Package should be completed before the Federal Grant/Entitlement Receivables and Unearned Revenue Conversion Package. (See A.1.)

1. Enter the agency ACFR code, name, and funds/accounts to be included on the summary.
2. Provide the name, title, phone number and date for each person who completes and approves this summary form. The finance officer or executive director should approve and sign the form before sending it to OMES. Keep a copy of the form. When submitting the form via email it should come from the address of the approving officer. This will act as an implicit electronic signature verifying the form has been reviewed and approved for validity, accuracy, and completeness.
3. Enter the AL number of the federal program. Do not include any Medicaid, Title XIX funds in this conversion package, or grants received from another state agency.
4. If this program has a receivable, enter the amount due from the federal government as of June 30. Take into consideration amounts entered on the Accounts Payable Summary Form. (See A.1.) However, do not include any amount that you have reported as an encumbrance on the Accounts Payable and Encumbrance Summary Form.
5. If this program has unearned revenue, enter the amount received from the federal government, but not spent at June 30. Again, take into consideration amounts entered on the Accounts Payable and Encumbrance Summary Form. If it has been reported as a payable, it is not unearned revenue.
6. Total the amounts entered as receivables in column (4) and put this total in blank (6).
7. Total the amounts entered as unearned revenue in column (5) and put this total in blank (7).

8. Provide comments or explanations as needed.

C. Working Papers

The agency should keep any documents that support data on the summary. For example, agencies should thoroughly document:

- * How you computed each amount.
- * The source(s) of data for each amount.

In addition, you should retain:

- * Copies of cost reports you file with grantors.
- * Treasurer's receipts with related documentation.
- * Copies of the letter and Schedule of Federal Financial Assistance sent to the SA&I.
- * Correspondence or other documents relating to
 - Grant/entitlement awards
 - Cash advances on grants
 - Letter of credit draws
 - Receipt of grantor reimbursement payments