

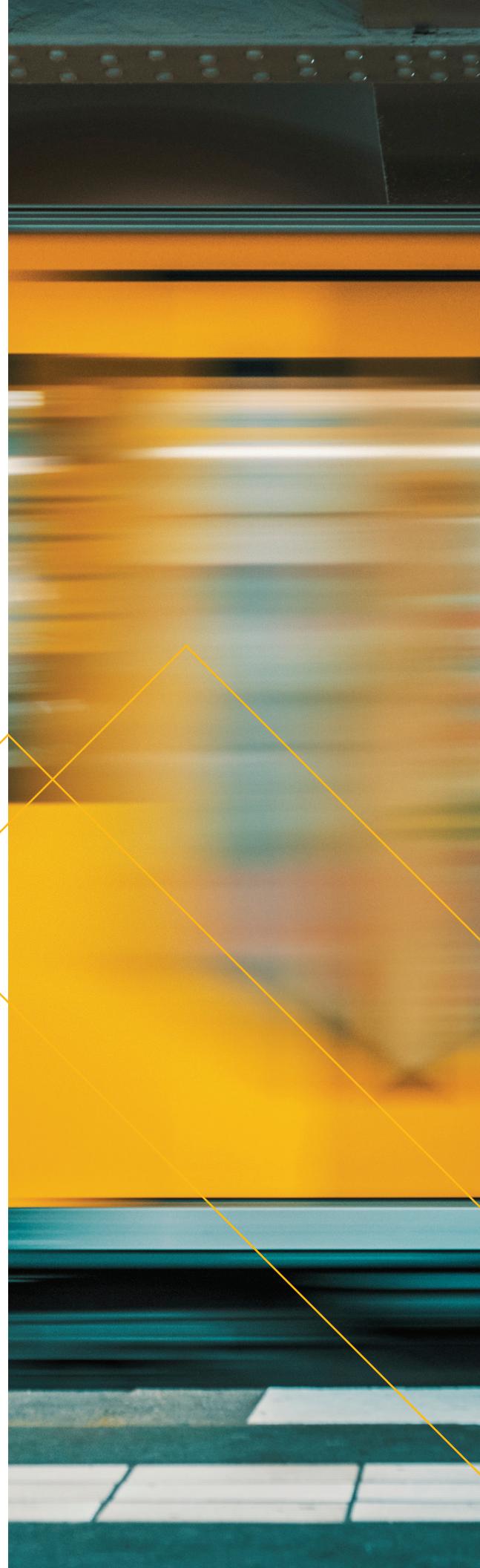


Q&A

Federal transit administration grant revenue recognition

By Bradley T. Schelle, CPA

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In April 2019, the response to a question in Governmental Accounting Standards Board (GASB) Implementation Guide No. 2019-1, "Implementation Guidance Update – 2019," led to much discussion and may affect many governments and government agencies, including transportation-related agencies receiving funding from the Federal Transit Administration (FTA).

This guidance clarifies the point in time at which grants receivable and revenue can be recognized for allowable costs incurred. The answer to question 4.7 states that assets and revenue should be recognized only after the grant agreement has been reviewed and signed by both parties. It appears from discussions with many governments that this has been somewhat inconsistently applied depending on the granting agency, the timing of the grant agreements, and the governments themselves. To help sort this out, here are some answers to common questions.





Q: We have been recording our grants this way for years, what has changed?

A: Question 4.7 in Implementation Guide 2019-1 asks:

A city government with a June 30 fiscal year-end incurred costs for debris clearing and increased public safety protection as a result of a natural disaster that occurred on May 30, 20X8. The president of the United States declared a natural disaster and approved funding for the region affected. The city applied for federal funding, and it received a notice of award on June 29, 20X8. The city executed the grant agreement on July 5, 20X8. Can the city recognize voluntary nonexchange revenue as of June 30, 20X8, for the reimbursement of costs incurred related to the natural disaster that occurred that fiscal year?

The answer provided is:

No. Paragraph 15 of Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions,” identifies expenditure-driven grant provisions to be a form of stipulation that “is considered an *eligibility requirement* … and affects the timing of recognition. That is, there is no award – … the recipient has no asset (receivable) – until the recipient has met the provider’s requirements by incurring costs in accordance with the provider’s program.” In other words, in the absence of an executed grant agreement before the end of the reporting period, the city cannot establish that it has incurred allowable costs and, therefore, cannot establish the existence of an asset (a receivable) at June 30, 20X8; that is the case even when the city has incurred costs that could be reimbursable once the grant agreement is executed. Assets and revenue should be recognized for allowable costs only after the grant agreement is executed.

While the Q&A is not specific to FTA grants, the guidance remains the same under all grant contracts and agreements.

Q: Our FTA grants include pre-award authority. Doesn't that indicate that we can spend on those grants and thus record them as revenue and receivable, even if we haven't actually received the signed grant award/agreement?

A: No. According to the Federal Register, Vol. 83, No. 136 under the Department of Transportation and Federal Transit Administration "FTA Fiscal Year 2018 Apportionments, Allocations, Program Information and Guidance," Section V.3., paragraph a.,

Pre-award authority is not a legal or implied commitment that the subject project will be approved for FTA assistance or that FTA will obligate Federal funds. Furthermore, it is not a legal or implied commitment that all items undertaken by the applicant will be eligible for inclusion in the project.

Your organization is still eligible to incur project costs under pre-award authority guidance as you historically have been; however, a grant receivable and corresponding grant revenue should not be recorded based on pre-award authority and should not be recorded until a grant award/agreement is approved and executed.



Q: What about the “matching principle” and the need to record revenue in the same period as when the expense is incurred?

A: The concept of the “matching principle” does not exist under the GASB. GASB Concepts Statements Nos. 1 and 4 both discuss the concept of “interperiod equity,” and in paragraph 63 of Statement 4 it says,

The matching concept attributes costs to the revenues recognized during a period for the purpose of measuring earnings. In contrast, interperiod equity attributes costs of the services to the period in which those services were provided and attributes revenues provided by taxpayers and other revenue providers to the appropriate period for the purpose of assessing whether those revenues were sufficient to finance the costs of providing services during that period.

Q: If the receivable and revenue are not recorded in the year the expense is incurred, would we still record the expenditures on the Schedule of Expenditures of Federal Awards (SEFA) in the year the expenses are incurred?

A: No. Because your organization did not have an executed grant award/agreement as of the end of the year, the expenditures incurred under pre-award authority are simply expenditures of the organization and treated as though they were paid for with local or other funding sources. Once your organization is able to draw reimbursement for the expenditures (after the grant has been executed), that is when the expenditures would be included on the SEFA. The notes to the SEFA should then include a footnote that discloses the expenditure amount included on the current year SEFA that was incurred in a prior year.

In the year of transition, your organization should consider and discuss the circumstances of your situation with your auditor, grantor, and/or cognizant agency to determine the appropriate way of reporting and disclosing any expenditures that were reported on the prior year SEFA for grant award/agreements that were not signed and executed as of the end of the prior fiscal year. Whether those expenditures are included again on the current year SEFA or excluded because they were reported on the prior year SEFA will depend on your specific situation and the impact on the major program determination in each year.

Q: How do we make this switch in accounting?

A: The most common approach would be to consider this a change in accounting principle as defined in GASB Codification Section 2250.127, based on the guidance from the Implementation Guide that clarifies GASB Statement 33. This states in part:

Each Statement and Interpretation of the GASB specifies its effective date and the manner of reporting a change to conform with the conclusions of that pronouncement. Other pronouncements of the GASB or the AICPA [American Institute of CPAs] as described in Category B in the hierarchy of generally accepted accounting principles (GAAP), described in Section 1000, “The Hierarchy of Generally Accepted Accounting Principles,” also may establish the manner of reporting a change in accounting principle.

Under this approach, paragraph 6 of Implementation Guide No. 2019-1 should be applied. It states,

Changes adopted to conform to the provisions of this Implementation Guide should be applied retroactively by restating financial statements, if practicable, for all prior periods presented. If restatement for prior periods is not practicable, the cumulative effect, if any, of applying this Implementation Guide should be reported as a restatement of beginning net position (or fund balance or fund net position, as applicable) for the earliest period restated. In the first period that this Implementation Guide is applied, the notes to financial statements should disclose the nature of the restatement and its effect. Also, the reason for not restating prior periods presented should be disclosed.

Therefore, any changes from this implementation would be applied retroactively by restating financial statements for all periods presented, adjusting the beginning net position/fund balance in the earliest period presented for the cumulative effect of changing to a new accounting principle, and disclosing the nature of the restatement and its effect in the notes to the financial statements.

The financial impact likely would be a reduction in net position/fund balance for grants that previously were reported as receivable and revenue but that did not have a signed grant agreement in place as of the end of that fiscal year. Then, in the current year, grant revenue would be recognized, assuming the grant agreement is now signed. The current-year grant receivable would reflect only allowable costs that have been incurred but not yet received from grantors under signed grant agreements as of the end of the fiscal year.

Q: When should we begin recording our grant activity under this guidance?

A: With the approval of GASB Statement 95, “Postponement of the Effective Dates of Certain Authoritative Guidance,” GASB Implementation Guide 2019-1 is now effective for reporting periods beginning after June 15, 2020. Begin recording for the fiscal years ended June 30, 2021; Sept. 30, 2021; and Dec. 31, 2021.





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Brad Schelle
Managing Director
+1 317 208 2551
brad.schelle@crowe.com

crowe.com

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