



DATE: July 8, 2016
DIRECTIVE NO: 29-16
RECISSION: La Cooperativa Directive No. 27-09
TO: All La Cooperativa Subrecipients
SUBJECT: Accrual Financial Reporting Requirements

PURPOSE:

The purpose of this directive is to provide guidance for the reporting of accrued expenditures by subrecipients.

APPLICATION:

Not all Federally awarded subawards require reporting on an accrual basis of accounting. It is the responsibility of the subrecipient to ensure that it complies with the requirements of its subaward regarding reporting of costs.

REFERENCES:

- 2 CFR Chapter I and Chapter II, Parts 200, 215, 220, 225, and 230 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule

BACKGROUND:

La Cooperativa is required by Federal regulations to submit accurate financial reports to its awarding agencies. As such, this directive is issued to establish standard information for reporting of accrued expenditures.

DEFINITIONS:

Accrual basis of accounting means an accounting basis wherein revenues and expenses prerecorded in the period in which they are earned or incurred regardless of whether cash is received or disbursed in that period. If the subrecipient records are not normally kept on the accrual basis of accounting, then the subrecipient must develop accrual information through analysis of documentation on hand.



Accrued expenditures. The charges incurred by the subrecipient during a given period requiring the provision of funds for

- (1) goods and other tangible property received;
- (2) services performed by employees, contractors, subgrantees, subcontractors, and other payees; and
- (3) other amounts becoming owed (by the grantee) under programs for which no current services or performance is required, such as annuities, insurance claims, and other benefit payments.

Accrued expenditures are charged incurred during a given period for goods and tangible property received and services performed that cause decreases in net financial resources. In other words, an accrued expenditure would include those expenses incurred that have not yet been paid (including quarter end payroll accruals).

Cash Expenditures mean an actual disbursement of funds for goods and services that have been received. Cash expenditures do not necessary equal the amount of cash drawn.

Expenditures mean charges made by a non-Federal entity to a project or program for which a Federal award was received.

- (a) The charges may be reported on a cash or accrual basis, as long as the methodology is disclosed and is consistently applied.
- (b) For reports prepared on a cash basis, expenditures are the sum of:
 - (1) Cash disbursements for direct charges for property and services;
 - (2) The amount of indirect expense charged;
 - (3) The value of third-party in-kind contributions applied; and
 - (4) The amount of cash advance payments and payments made to subrecipients.
- (c) For reports prepared on an accrual basis, expenditures are the sum of:
 - (1) Cash disbursements for direct charges for property and services;
 - (2) The amount of indirect expense incurred;
 - (3) The value of third-party in-kind contributions applied; and
 - (4) The net increase or decrease in the amounts owed by the non-Federal entity for:
 - (i) Goods and other property received;
 - (ii) Services performed by employees, contractors, subrecipients, and other payees; and
 - (iii) Programs for which no current services or performance are required such as annuities, insurance claims, or other benefit payments. (2 CFR 200.34)

Individual Training Account (ITA): For the purposes of a WIOA funded program, an ITA is an account established on behalf of a participant. The ITA allows an adult or dislocated worker to purchase training services from eligible providers. An ITA is considered to be an obligation at the point the participant actually enrolls in the training program. The obligation must be accrued/expensed as the training takes place and reported at that time. Prior to enrolling in the training program, the ITA is not considered an obligation or expenditure.

Obligations means orders placed for property and services, contracts and subawards made, and similar transactions during a given period that require payment by the non-Federal entity during the same or a future period. (2 CFR 200.71)

Pass-through entity means a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program. (2 CFR 200.74)

Subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (2 CFR 200.92)

Subrecipient means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. (2 CFR 200.93)

Unliquidated obligations means, for financial reports prepared on a cash basis, obligations incurred by the non-Federal entity that have not been paid (liquidated). For reports prepared on an accrual expenditure basis, these are obligations incurred by the non-Federal entity for which an expenditure has not been recorded. (2 CFR 200.97)

POLICY:

The Uniform Guidance requires accurate, current, and complete disclosure of the financial results of each award or program in accordance with the reporting requirements for that particular fund source. When a subrecipient is required to report on an accrual basis but maintains its records on other than an accrual basis, La Cooperativa will not be require the subrecipient to establish an accrual accounting system. The subrecipient will be required to develop accrual data for its reports on the basis of an analysis of the documentation on hand. The subrecipient's fiscal controls and accounting procedures must be sufficient to:

- (1) Permit preparation of reports required by its subaward
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibits of its subaward and applicable laws and regulations.

Examples

Individual Training Accounts (ITAs) are to be obligated at the time the participant is registered/enrolled, not when the ITA is written. The ITA cannot be obligated for more than the costs that will be incurred in the current program year. If the ITA contract covers multiple funding program years, then the following year's costs cannot be obligated until next year's funds become available. The accrued expenditure is reported at the time that services are rendered by the training provider as included in your individual training agreement between the training provider and your agency. If the training institution has a drop-out/refund policy in place then this has to be taken into consideration when determining when the costs are to be fully accrued.

Salaries, wages, and fringe benefits are to be obligated at the time they are earned which also means that the accrued expenditures are to be reported at the same time. The issue of how and when annual leave is to be reported is determined based on whether or not the leave is funded or not. If the leave is funded then it is obligated and accrued at the time it is earned. If it is not funded then it is obligated and accrued when it is taken.

Maintenance Agreements: If prepayment for these services is considered to be the industry standard and the payment terms are written into the maintenance contract, the costs can be considered an obligation when the contract is signed and an accrued expenditure when the payment is made.

Leasehold improvements: If a subrecipient has a lease that requires prepayment of more than one month, the lease needs to be awarded so that the repayment is considered as a security deposit rather than a prepayment of occupancy costs. This will allow the subrecipient to prepay those costs and consider them an outlay at the time they are paid.

Prepaid expenses (costs): These are assets and are, from the United States Treasury's viewpoint, treated as cash; they are neither accrued expenditures nor costs. They develop into such accruals only as the value represented by the advance is earned by the payee, at which time the prepaid expense is reduced and the accrued expenditures and costs are recognized.

Disbursements are checks issued or cash paid, net of refunds. Note that disbursements are not the same thing as expenditures. Also, note that disbursements include funds used to make advance payments.

Accounting and Reporting

Accrued expenditures must be documented based on what is required to be paid, historical data, or some other reasonable methodology. Adequate documentation must be maintained to support accrued expenses and the methodology used. Documentation can also include actual invoices not yet paid.

ACTION:

La Cooperativa and its subrecipients shall follow this policy. This policy shall remain in effect until such time that a revision is required.

If you have any questions regarding this Directive, please contact Fernando Gonzalez at (530) 388-2225 or e-mail at fgonzalez@lacooperativa.org.



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