Accounting Bulletin #2008-02

SUBJECT: Accounting for Pass-Through Payments
(Also see May 12, 2006 Penn*Link and Accounting Bulletin 1998-01)

Effective Immediately

Date: March 31, 2008

The guidance provided in this Bulletin applies to revenues received by Local Educational Agencies (LEAs) that are identified as pass-through funds. Pass-through funds are monies not retained by the recipient LEA for their own school’s use, but are passed through to a secondary recipient.

GASB Statement #24 addresses the proper accounting for pass-through grants. According to this statement, “All cash pass-through grants received by a governmental entity (referred to as a recipient government) should be reported in its financial statements. As a general rule, cash pass-through grants should be recognized as revenue and expenditures or expenses in a governmental, proprietary, or trust fund.” (For ease of communication, recipient government will be replaced with recipient LEA; secondary government will be replaced with secondary LEA).

Up to this point, the recommended reporting of these funds for the Annual Financial Report (AFR) was to include these payments as revenues in the General Fund of the recipient LEA. The disbursement of the funds to the secondary LEA was then recorded to account code 2990-899 (Pass-Thru Funds). In order to accurately report only those transactions that have a financial impact on the recipient LEA in the General Fund, and to ensure consistency among the LEA’s, the use of a Special Revenue fund is permitted in certain situations. Two funding scenarios addressed in this Bulletin are when a recipient LEA: (1) acts as a consortium leader, or (2) functions as a host district and is required by the PA School Code to educate non-resident students.

In cases when a recipient LEA is acting as a consortium leader and passes the funds to its members, the use of a Special Revenue fund is permitted by the recipient LEA. However, any portion of the grant that is used for the recipient LEA’s students or is used for administrative costs, must be accounted for in the General Fund of the recipient LEA. Also, when reconciling grant information to the Department of Education, the consortium leader must then report amounts from both the General and Special Revenue funds in order to accurately report grant revenues and expenditures.

On the other hand, if a recipient LEA is functioning as a host district and passing funds to another educating agency or LEA to educate non-resident students as required by School Code, these costs must be accounted for
within the recipient LEA’s General Fund since these students are included in their average daily membership count. An example of this would be schools that have a detention center located within their boundaries.

As discussed in the Manual of Accounting and Financial Reporting for Pennsylvania Public Schools, establishing a Special Revenue (Fund 28) requires Comptroller approval. To assist the schools with requesting the establishment of this fund for Pass-Through revenues, a suggested form is available on the Comptroller’s website: www.education.state.pa.us under Policies and Procedures. Utilization of this form will allow a more efficient and timelier notification of Comptroller approval/disapproval.

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