
Procedure 765 Recognition of Legal Obligations in Reporting for Federal Grants

Legal obligations are commitments made by an LEA to purchase goods or services immediately or in a future period. Commitments are generally made in the form of a purchase order or a written contract.

For purposes of accounting at year-end, obligations for future periods are not reflected in the current year's books. Rather, the obligated goods or services are recognized in the following year's books, when the goods or services are actually received. But for purposes of grant reporting, federal funding may be claimed under a current-year grant for certain qualifying legal obligations incurred by the end of the grant period, even though the goods or services will not be received until after the grant period ends.

The question of whether or not an obligation is claimable for funding under a current-year grant is determined by what the obligation is for. The following table based on the *Education Department General Administrative Regulations (EDGAR) Code of Federal Regulations (CFR)*, Title 34, Part 76.707, shows when various commitments are considered to be legal obligations.

<i>If the obligation is for . . .</i>	<i>The legal obligation is made . . .</i>
Acquisition of real or personal property	On the date on which the LEA makes a binding written commitment to acquire the property
Personal services by an employee of the LEA	When the services are performed
Personal services by a contractor who is not an employee of the LEA	On the date on which the LEA makes a binding written commitment to obtain the services
Performance of work other than personal services	On the date on which the LEA makes a binding written commitment to obtain the work
Public utility services	When the LEA receives the services
Travel, conferences	When the travel is taken or conference attended
Rental of real or personal property	When the LEA uses the property
A pre-agreement cost that was properly approved in advance	On the first day of the grant or subgrant performance period

On the basis of the preceding table, an example of a legal obligation that would qualify for funding under a current year grant ending June 30 is the cost of books for which a purchase order was issued in June, even though the books will not be received until July. An example of a legal obligation that would not qualify for funding under a current-year grant ending June 30 is the

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cost of a conference to be held in July. Regardless of when a purchase order or contract is signed, that legal obligation occurs when the conference is attended, not before.

When federal grant funds are claimed for legal obligations in one year for expenditures that are recognized in the following year, unexpended federal revenue will remain on the books at year-end and will be deferred for recognition in the following year because the expenditures for the legal obligations will not occur until the following year. The unexpended revenue is deferred by debiting the revenue account and crediting the unearned revenue account. The grant funds claimed for grant reporting purposes, therefore, will exceed the federal grant revenues recognized in the current year's books.

An example follows below.

Description	Grant Claim (ends 6/30)	Current- Year Books (as of 6/30)	Subsequent- Year Books (begin 7/1)
Federal Revenue Received	100	100	0
Federal Revenue Deferred	0	(20)	20
Subtotal, Revenue	100	80	20
Actual Expenditures	80	80	20
Legal Obligations	20	0	0
Subtotal, Expenditures/Obligations	100	80	20

This is a normal difference between governmental accounting principles and grant reporting procedures.

When federal grant funds are claimed for legal obligations in one year for expenditures that are recognized in the following year, as described previously, the LEA must be careful not to claim these amounts again the following year. The grant funds claimed for grant reporting purposes in the following year, then, would be less than the federal grant revenues recognized in the following year's books.