

3. ACCOUNTING

3.7 Grants

3.7.2 Pass-Through Grants

- 3.7.2.10 The Governmental Accounting Standards Board (GASB) [Statement 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance](#), defines pass-through grants as those grants and other financial assistance received by a governmental entity (recipient government) to transfer to or spend on behalf of a secondary recipient. All pass-through grants received by a governmental entity should be reported in its financial statements. To determine the proper accounting for pass-through grants, the recipient government has to evaluate its administrative and direct financial involvement.
- 3.7.2.20 Administrative involvement may include:
- (a) Monitoring secondary recipients for compliance with program-specific requirements,
 - (b) Determining eligible secondary recipients or projects, even if using grantor-established criteria, or
 - (c) Having the ability to exercise discretion in how the funds are allocated.
- 3.7.2.30 Direct financial involvement may include:
- (a) Recipient government financing some direct program costs because of a grantor-imposed matching requirement, or
 - (b) Recipient government liability for disallowed costs.
- 3.7.2.40 If a recipient government has administrative involvement or direct financial involvement in a pass-through grant, its responsibility in relation to the resources is more than custodial.
- 3.7.2.50 The recipient government essentially exercises operational responsibility or discretion over whether the grant will be awarded.
- 3.7.2.60 The National Council on Governmental Accounting (NCGA) Statement 1 states that agency funds are purely custodial. In those cases in which a recipient government serves only as a cash conduit, the grant should be reported in an agency fund. Pass-through grants with administrative or direct financial involvement should be recognized as revenue and expenditures or expenses in governmental, proprietary, or fiduciary funds of the recipient government.
- 3.7.2.70 The [GASB Statement 24](#) does not require that a recipient government's payment of administrative costs (indirect financial involvement) be separately evaluated in determining the reporting of pass-through grants. If a recipient government serves only as a cash conduit, it may incur some incidental administrative costs. If a recipient government's administrative costs are more than incidental that would be the result of administrative involvement.