

# Financial Reporting Obligations of Federal Grant Recipients

*By Henry Flood*

Emerging e-grant initiatives by the federal government promise to change the ways that grant recipients file their financial reports with federal agencies. But in the meantime, most grantees will continue to request periodic payments and file the results of grant spending the old-fashioned way—using standard reporting forms.

These forms can be both deceptively simple and occasionally confounding. And while they may be streamlined once electronic reporting becomes routine, it's a safe bet that their basic requirements will remain intact.

Why do these requirements exist at all? The answer lies in regulatory need and plain common sense. Like any money manager, the federal government has an interest in holding onto cash and not releasing it too soon. Otherwise, the government ends up paying more interest on the dollars it has to borrow. Moreover, federal grantmakers have an obligation to ensure that the funds they release are being spent responsibly and for the purpose intended.

In effect, the standard forms are meant to promote management control—on the part of both grantmakers and grant recipients. When your organization submits financial status reports or requests funds on an advance or reimbursement basis, the figures are compared to an internal ledger associated with your approved grant budget. If your request is deemed unreasonable, it will be questioned or denied by a payment officer. If your financial status report suggests that you have excessive federal cash on hand, your project officer will ask for an explanation. If you consistently violate the drawdown rules, your right to advance payments may be revoked.

As a project manager or grant program administrator, you must be alert to situations that indicate a lack of financial management control before filing your reports. Don't rely exclusively on your own accounting system to maintain such control—especially if your system isn't automated for real-time accounting. The results you get may be outdated and your reports may be inaccurate. Control over drawdowns and payments is best accomplished by maintaining a current log of payments received, along with a summary budget of funds authorized to be spent. In the end, the goal of financial

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reporting is to demonstrate that drawdowns are made only when needed, that funds received are expended in a reasonable and timely way, and that federal money is not being hoarded.

Let's take a closer look at the standard forms most federal grantees will encounter, and how they can help you achieve those goals.

## **Standard Form 269-A**

Standard Form 269-A - Short Financial Status Report is the form that most grant recipients will use to report the financial status of their grant awards. The balancing of outlays and federal cash on hand is compared to drawdown requests in order to determine whether your cash requests and expenditures are in compliance with the two documents that govern such transactions, OMB A-110 and the Common Rule on Grant Administration. (The major differences between the long and short versions of SF 269 lie in the degree of detail required. The long form includes information on grant program rebates, program income and third-party project support. Blocks 1-9 are the same for both versions. Only the financial portions [Blocks 10-13] are different.)

The blocks at the beginning of the form require straightforward information: the name of the granting agency; the grant award number; your federal employer ID number. Don't be surprised if future versions also ask for your mandatory DUNNS number—the new holy grail of grantee identification.

Block 5 asks for your grant program account or other identifying number. You should discuss this with your accountant. The number you enter here is likely to be the main accounting system number for all grant transactions that pertain to your grant award. If yours is a very small organization and you have elected to deposit your grant funds into a separate bank account, you might enter the checking account number for the grant in Block 5.

Block 6 asks whether your report is "Final." Check "Yes" if it is and "No" if you still have future reports to file. Block 7 asks for your accounting system basis—cash or accrual. The real question here is, "How do you keep your books?" If you have only a single small grant and yours is a relatively small organization, your books may be kept on a cash basis. If you have several grants, your books will almost certainly be on an accrual basis. Select one or the other. Do not leave Block 7 blank.

Block 8 asks for your grant funding period—usually the starting and ending dates of your grant as indicated in your grant award agreement. These dates normally remain the same unless or until you have an authorized grant extension. When an extension is in force, enter the last extended date. Some federal agencies also have a notation of period of availability of funds. These dates are usually 30 to 90 days after the last date of your approved project dates. That gives you time to make final payments and clear all obligations from your accounting system.

Block 9 asks about the period covered. The dates you enter ("from" and "to") will vary according to the frequency of your outlays and drawdowns. Frequent outlays and drawdowns usually mean shorter periods. Infrequent outlays and drawdowns mean longer periods. Why does the granting agency care? Every time you file a financial status report, the dates you enter in Block 9 tell the grantmaker whether the cash advanced and cash spent are reasonable for that period. So, be careful about the dates you enter and make sure that they are accurate.

To see how things work in practice, let's look at Blocks 10-13 with reference to a hypothetical example. Suppose your agency has an authorized one-year grant of \$200,000 that begins on April 1, 2004. You are due to report on the grant by filing SF 269. Your federal share of funding is \$200,000. Your matching share from local sources is \$50,000. The total project award, including the match, is therefore \$250,000.

Since the start of project activities, you have drawn down \$20,000 in federal cash in two payments of \$10,000 each. You have spent \$18,000 of these federal funds and obligated the remaining \$2,000, but the funds have not yet cleared your accounting system. You have also expended \$10,000 in local match share funding. This is your first report. How might you fill out Block 10, lines a-i?

Block 10 is subdivided into three columns: Previously Reported, This Period and Cumulative. Since this is your first report, the numbers in column II (This Period) and column III (Cumulative) will be the same.

Column I of block 10, lines (a-c) will have zeros entered because this is your first report. Column II will have the following figures:

1. Line 10a would be \$28,000, reflecting total federal and recipient outlays.

2. Line 10b would be \$10,000, showing that you spent this amount of your match.
3. Line 10c would be \$18,000, showing that you expended \$18,000 of the \$20,000 in federal funds drawn down.
4. Total un-liquidated obligations (line 10d) would be \$2,000, reflecting obligated but unexpended federal cash.
5. Line 10e would be zero because all of your local match of \$10,000 has been expended.
6. Line 10f would be \$2,000 because you have \$2,000 in obligated federal funds yet to be expended.
7. Line 10g, total federal share, would be \$20,000 (the sum of 10c and 10f).
8. Line 10h is the sum of total grant funds authorized (\$20,000), unless your grant agreement limits you to a lesser amount by quarter.
9. Line 10i is the amount of federal funding that is not yet obligated. Since the federal funds are obligated, you may enter zero here. However, if the remaining federal funds were not obligated, you would have to enter \$2,000.

Since there is an obligated federal balance, it is to your advantage to explain this in block 12, "Remarks." Simply indicate that the remaining \$2,000 is obligated but expected to clear your accounting system within a specified number of days. This mitigates against a finding of excess cash on hand.

It is permissible to have unexpended but obligated federal cash on hand, but you should avoid having large amounts of it. The key here is to request funds when they are really needed.

## **Standard Form 270**

Standard Form 270 - Request for Advance or Reimbursement (Non-Construction Funding) is used to request an advance payment or, if you are a high-risk grantee and cannot get advance payments, a reimbursement payment. SF 270 is divided into two parts. Blocks 1 through 10 ask for

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information about your organization and identifying information about your grant award similar to that described in the discussion of SF 269 above. Block 11 (a-i) and Block 12 (a-c) ask for financial data to support a request for advance or reimbursement. SF 270 permits you to make drawdowns in multiples of three programs on a single form. Our illustrated example (on page 9) will be for a single grant award.

Block 10 is where you tell the government where the check is to be sent, if that address is different from that of your organization as indicated in Block 9. Some important advice is in order here. Even in cases where paper drawdown requests are still being accepted, most federal agencies now require that grantees complete Standard Form 1199, Direct Deposit Agreement, so that grant payments may be electronically deposited into the grantee's bank account. Carefully read the payment request instructions in your grant agreement to see if that's the case for your grant and fill in Block 10 accordingly.

Now you are ready for the financial portion of SF 270, Block 11 (a-i) and Blocks 12 and 13. Let us say that you have a grant award from the Economic Development Administration for \$50,000 with no match share. This is a relatively small grant, so EDA is likely to award the funds in two payments. You will probably be authorized to submit an advance request for half the funds (\$25,000) covering half the award period, with the remaining funds released once you have filed a progress and financial status report. How do you fill in Blocks 11 and 12?

In column (a) of Block 11, we'll enter "EDA Planning" to identify the project. Because we have made no outlays and are requesting an advance payment per the instructions of the agency, line 11a in this column would be zero. Line 11b would also be zero because the grant is not supported by any program income.

Line 11c asks for the estimated program outlays during the advance period of six months. Enter zero here because there have been no program outlays to date. This is the initial request for funding.

Line 11d asks for the "estimated net cash outlays for the period." Enter \$25,000 to reflect the amount of the federal authorized grant advance. Line 11e would also be \$25,000.

Because no match is involved, line 11f would be zero.

Line 11g is \$25,000 because that is half of our authorized federal grant advance covering the first six months of the award. Line 11h would be zero because we have not requested any previous federal grant payments. Line 11i, "federal share now requested," would be \$25,000 because this is the advance request authorized by the grant.

We'll say that we are not subject to a grant drawdown schedule, so line 11j is left blank.

Block 12 simply asks us to compute the cash outlays that will be made during the period of the advance. On line 12a, we enter \$25,000. On line 12b, we enter zero because we have not previously expended any federal funds. (This is the initial drawdown request.) Finally, on line 12c, "federal share now requested," we once again enter \$25,000, which is the amount of the advance payment authorized.

Block 13 is important. A senior administrator in the grantee's organization must certify the request and sign the form.

## **Standard Form 271**

Standard Form 271 - Outlay Report and Request for Reimbursement for Construction Programs is similar to SF 270. It is used by recipients of construction grant funding to request reimbursement payments. Because of the large amounts associated with construction projects, federal grant payment policies contained in the Common Rule and OMB Circular A-110 express a preference for reimbursement rather than advance payments in these programs.

Since advance payments are not normally allowed for construction projects, you may find yourself looking for ways to prime the pump with enough cash to drive an expensive project of long duration. Several options are possible. Regardless of whether interest on borrowed funds is allowable as a project expense, you could borrow enough to fund the forecasted median payment and use those funds to make the initial payment to trigger the reimbursement process.

What do you do when you have no cash to get started and the budget depends entirely on federal dollars? One option is to ask for a one-time working capital advance. It's permissible, though not frequently granted. Another possibility is using the incurred costs option. Some federal agencies will

honor a reimbursement payment based on the costs that you have incurred but have not actually paid.

## **Standard Form 272**

Standard Form 272 - Federal Cash Transactions Report is usually required of recipients who receive more than \$25,000 a month or who have many awarded grants. When used in conjunction with SF 269, you and your funding sources can closely monitor cash drawdowns, disbursements, interest earned and net federal cash on hand for compliance with the payment management requirements of the Common Rule and the new OMB Circular A-110. Think of this form as comparable to balancing the debits and credits of a checkbook.

## **Some Final Advice**

The accuracy and integrity of your financial reports derives from a good financial management system and a strong system of project management. As a project manager who must live with a particular grant award every day, it is important to track and document your funding drawdowns. It is also important to have a good understanding of your grant budget so you can track obligations of funding and expenditures for reporting purposes.

The standard financial reporting forms should be seen as financial management tools that benefit you and the granting agencies that fund your projects. When used properly and accurately, these reports help you analyze grant receipts and expenditures, document drawdown compliance and demonstrate that grant monies are tracked relative to project progress and authorized costs.

If you understand how to fill out the SF 269, SF-270, SF 271, SF-272 and their variants, you are well on your way to being able to understand and complete all of the remaining standard financial reporting forms.

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