Reporting Resource for the Overview of WIOA and 2 CFR 200 and Budgeting In the 21st Century

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 basis, these are obligations, incurred by the non-Federal entity, when an expenditure has not occurred.

Unobligated balance means the amount of funds under a Federal award that the non-Federal entity has not obligated. The amount is computed by subtracting the cumulative amount of the non-Federal entity's unliquidated obligations and expenditures of funds under the Federal award from the cumulative amount of the funds that the Federal awarding agency or pass- through entity authorized the non- Federal entity to obligate. The annualized salaries, fringe, and leave are **not accruals or obligations** until staff work or take leave. The portion of funded leave earned through the end of the reporting quarter may be put into an escrow account. Unfunded leave can only be accrued when the leave is taken.

The same is true for the obligation, payroll for time worked and funded leave are obligations, Unfunded leave systems, the leave is an obligation when the leave is taken. an
Examples of ACCRUED expenditures that are to be reported to ETA include: (a) all **costs of goods and services which have been received** and through the end of the reporting period **but not yet paid**.

Accrual: the salaries and benefits earned by employees for work performed or leave taken, whether or not the payroll checks have been issued, the cost of services received by clients/participants, such as child care or transportation, for which the grantee has a legal requirement to pay;(d) the cost of training which has been received by enrolled participants; and (e) the cost of tuition paid up front for participants enrolled in classes as explained below.

It is important to note that accrued expenditures include costs where the services have been received, but not yet billed or not yet paid through the end of the reporting quarter. When the cost are paid, the accrual is reversed and you have an expenditure.

Another prime example of this is tuition. Tuition costs are often billed months after the participant has entered and received training. Therefore, the cost of the tuition for the training is accrued, even though it has not been billed.

On the other hand, tuition is a **specific exception, as provided by the Comptroller General, to the prohibition of paying for services before they are received.**

The full cost of tuition for the current semester/quarter classes in which an individual is enrolled non-Federal entities should report the full expenditure of tuition in the quarter when the institution is paid. When the tuition cost is paid, there is an obligation and expenditure recorded, reverse any accrual. Payment drives the accrual or expenditures. It is an accrual until the check is cut. This is all based upon the training institution's payment policy. Fiscal and program staff must work together to determine the participants that are enrolled and must determine the training institution's drop policy. Whenever the tuition is paid at enrollment and the participant drops out before the drop deadline, a refund is due and must be collected. Since the cost of training is often a significant component of expenditures incurred under ETA programs, this provides a much more realistic and timely assessment of the actual costs incurred for training. Please note that accrual of advance payments for tuition applies only to the current term and does not apply to long- term and multi-year training programs. When tuition is paid, you have an obligation and expenditure.

Obligation is a term that references actions where **there is a legal commitment to pay** exists. The obligation may occur at the time the services are rendered, or before services are rendered **when a binding agreement has been entered into**. These cannot be oral agreements. There must be a written definite and legal binding agreement.

Grantees must note that the Comptroller General of the United States has issued statements concerning obligations that include: "definite commitment which creates a legal liability" and "definite and certain." (B-136383, June 27, 1958 and B-116795, June 18, 1954). In other words, obligations are legal requirements - not plans, budgets, or encumbrances.

Examples of obligations or legal commitments include sub-grant agreements, purchase orders with minimums - the minimum is an obligation, or cash disbursements. Obligations do not include such actions as projected staff time, future or projected rent payments, future or projected training, or items that are budgeted during the period of the grant award.

O**bligations should not be confused with "encumbrances."** In accounting, an encumbrance means an anticipated expenditure or funds restricted for anticipated expenditures. Encumbrances are used by organizations to account for projected or budgeted costs that may come due in a current period or a future period. Examples of encumbrances may include: the rent that will be paid for the upcoming year; staff salaries that will be paid when the staff actually performs the work; and projected training costs for participants that are in multi-year training programs and there is a legal binding contract. These encumbrances/commitments because none of these items meet the more stringent standards of being an obligation (definite and certain and creating a legal liability), and the costs associated with them may not be paid in advance of the actual work, occupancy, or registration for training. Organizations may use encumbrances to set aside funds for known future needs. Encumbrances need to be reviewed on a periodic basis and either obligated or liquidated in order to manage fund availability and use, in accordance with each entity's accounting system requirements. No cash may be drawn for encumbered funds or commitments.

The use of obligations as a measure of the grantee's financial performance provides for internal controls as they are included in grantee accounting systems and accounted for in accordance with Generally Accepted Accounting Principles or GAAP. There have been discussions in the grantee community that projected training costs should be counted as obligations. Projected training costs do not meet the definitions of obligations they do not meet the requirement of being definite and certain, nor do they constitute a legal liability until the participant is registered/enrolled d in a specific course.

Further, a Comptroller General decision related to pre-payment of tuition costs states that the period covered by the pre-payment (i.e. the obligation) only extends to the current period the participant is registered and attending classes (Comptroller General Decision [B-148283, 1962]. Therefore, while grantees need to be aware of future needs and should have a system for managing these needs, the inclusion of such items as obligations would violate Federal grantee accounting and ETA reporting standards. Future funding may not occur. Multi-year contracts should obligated and accrued in the year of availability of funds.

Also, similar discussions regarding reporting leases as obligations. Since rent payments are contingent on continued occupancy, the only portion of a lease that can be reported as an obligation is the amount due if the lease is canceled, often called the cancellation or termination penalty. Appropriate accounting for an operating lease is to record only the current accrued rent or payment of rent as an obligation and the plus the cancellation penalty as an unliquidated obligation.

Example, Individual Training Account (ITA) amounts for tuition are not obligations at the time the ITAs are issued by the grantee to a participant. They become obligations only at the time the participant enrolls in training at the training institution. The issuance of the ITA is equivalent to a budgeted limit for training. An ITA is a commitment/encumbrance by the grantee to a participant which does not result in a legal commitment until the participant is registered for a class with a particular educational institution. Once a participant registers for classes, there is an obligation and accrual (until the check is cut) or expenditure (when the check is cut). Consequently, the amounts of ITAs for which enrollments have not occurred are merely encumbrances or commitments to manage fund availability and use and are not reported to ETA.

Accurate accounting of obligations is important because it directly relates to future funding availability. If a grantee tracks and reports amounts which are not actual obligations, and obligations which are over-reported end up not being liquidated, and unexpended or unused portions of the grant are not de-obligated timely for re-use, funding authority for the grant may expire and the funds would be returned to the U.S. Treasury. Once returned to the US Treasury, these funds are no longer available for the purpose intended. Inefficient utilization of Federal funds results in the appearance that the program did not require all the funds it was previously appropriated.

Travel, only the airline ticket is an obligation and expenditure until the travel occurs. Other travel cost are not an obligation or accrual when the travel takes place. Reason being, the travel many not occur. Most airlines do not reimburse airfare. However, during the pandemic, some airlines have eased restrictions and are refunding airfare.