



Accounting for American Rescue Plan Federal Funds - State and Local Fiscal Recovery Funds Program (SLFRF)

Accounting for federal funding allocated and received under the American Rescue Plan State and Local Fiscal Recovery Funds Program (SLFRF) presents some unique revenue recognition and financial statement presentation challenges that most local governments will encounter in their fiscal 2022 financial reporting.

All local governments have received an allocation of federal ARPA - SLFRF funding. Consequently, there has been considerable focus on permitted uses of those funds, the timeline for expending the funding and required federal reporting. Questions have also arisen regarding financial reporting considerations such as when to recognize the revenue and what fund(s) should be used to best demonstrate the appropriate use of those funds.

Unlike most typical federal programs, these funds were made available to local governments up-front which complicates the accounting and financial reporting considerations since receipt of the federal funding is not the same as meeting the revenue recognition criteria. Additionally, the SLFRF funding may be used for revenue replacement which is different from most expenditure driven federal grant programs.

We've outlined recommendations below on how to account for these funds for financial reporting purposes with the goal of highlighting relevant technical guidance and promoting uniformity in financial reporting among the State's local governments. While we are not providing guidance on the types of expenditures that are allowed under the SLFRF, we are providing recommendations for financial reporting practices which should enhance demonstrating accountability for such funds to auditors performing required Single Audits, federal auditors, or the general public.

In general, receipt of the federal SLFRF funds does not automatically equate with recognizing those amounts as federal or intergovernmental revenue. Consequently, the federal SLFRF funds should be recognized as an asset (cash) and a liability (unearned revenue) upon initial receipt. The SLFRF funds should be recognized as revenue when other criteria related to the allowable use of the funds have been met. This will typically be coordinated with and dependent upon the governing body's (e.g., city or town council's) planned use for the funds as provided in the adopted budgets, etc. As there is a longer timeline for using the ARPA-SLFRF funding compared to earlier COVID-19 related funds, many governments may recognize a portion of their SLFRF allocation over multiple fiscal years.

It is recommended that local governments be strategic in navigating and anticipating situations that may appear to cause an appearance of noncompliance with federal program guidelines and requirements. For example, the SLFRF program guidelines prohibit using the funds to bolster reserves or a "rainy day fund". Immediate recognition of the SLFRF funding for revenue replacement might result in an operating surplus which could appear to build reserves and therefore trigger consideration of noncompliance.

Generally, federal revenue and federal expenditures should be in synch within a reporting period regardless of whether the activity is recorded in the general fund or a special revenue fund. Federal SLFRF revenue should not be recognized without any expenditure activity recorded in the same fund.

Recommendations:

Most local governments prefer to account for SLFRF activity in a special revenue fund for simplicity and transparency. When opting to use the SLFRF for revenue replacement (either through meeting the specific revenue replacement calculation criteria or opting for the \$10 million "automatic" qualifying limit), recognize the amount of SLFRF revenue planned or needed to support operations and document that there are sufficient qualifying general government expenditures to support the amount recognized after deducting non-qualifying expenditures (e.g., debt service, etc.). A transfer can be made from the special revenue fund to the General Fund for the amount to be recognized as revenue replacement or expenditures can be transferred from the General Fund to the SLFRF special revenue fund. Report any "unused" SLFRF allocations as unearned revenue (liability) in the special revenue fund. Using the funds for the revenue replacement option may ultimately generate resources that can be used for other purposes.

When utilizing the SLFRF revenue replacement option, formally document the amount of qualifying governmental expenditures (after exclusion of non-qualifying amounts) needed to support the funds recognized for revenue replacement. This documentation will be used by your auditors in performing the single audit to measure compliance with federal program requirements.



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When using the SLFRF funds for other than the revenue replacement option, allowable expenditures can be recorded directly in the special revenue fund. SLFRF revenue recognized in the special revenue or other funds fund should be consistent with the expenditures funded through SLFRF within that accounting period.

Activity/expenditures supported by SLFRF fund should be consistent with adopted budgets for the fiscal year and any other ordinances, etc. outlining both the timing and planned use of the funds.

Report amounts on the entity's Schedule of Expenditures of Federal Awards (SEFA) based upon the amount of SLFRF qualifying expenditures recognized/incurred for the period. Although amounts were received in advance, the SEFA may include SLFRF expenditures in multiple fiscal years.

Links to relevant technical / implementation guidance:

- ***GASB Technical Bulletin No. 2020-1 – this document provides guidance specific to the first wave of COVID aid but provides applicable guidance on revenue recognition when funds are received in advance. Questions 1 and 2 are relevant, along with the discussion of recognition issues related to the CRF section on page eleven of the document. Link to the TB below:***

[GASBTB 2020-1-Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act \(CARES Act\) and Coronavirus Diseases](#)

- **AICPA Audit and Accounting Guide for State and Local Governments – 2022 – Chapter 6 – Revenue and Receivables includes this discussion:**

Nonexchange Transactions

COVID-19 Considerations

GASB Technical Bulletin (TB) 2020-1, Accounting and Financial Reporting Issues Related to the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and Coronavirus Diseases, issued in June 2020, clarifies the application of recognition requirements in [GASB Statement Nos. 33](#): 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards; and 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, to resources received from CARES Act funding, including two large federal programs - the Coronavirus Relief Fund (CRF) and the Provider Relief Funds (PRF). GASB clarified, in Question 1, that because CRF resources include eligibility requirements, the resources received from the CRF should be recognized as liabilities until the eligibility requirements are met, including the incurrence of eligible expenditures. When the eligibility requirements are met, the government should recognize revenue. Question 2 of GASB TB No. 2020-1 also addresses a government's loss of revenue for PRF and clarifies that loss of revenue is an action-based eligibility requirement. As a result, PRF resources received should be recognized as a liability until the eligibility requirements are met.

Although the provisions of GASB TB No. 2020-1 provide guidance for recognition and presentation issues related to the CARES Act, those principles may be applied to other similar pandemic funding.

Readers are encouraged to consult the full text of the TB on GASB's website at www.gasb.org.