

Illinois GFOA Technical Accounting Review Committee

Whitepaper on Accounting for Coronavirus State and Local Fiscal Recovery Funds

April 2022

This whitepaper was written to provide guidance on GAAP reporting for annual financial statements. It is not intended to provide guidance on the ARPA federal reporting requirements or the Schedule of Expenditures of Federal Awards reporting requirements.

Revenue Recognition

The Coronavirus State and Local Fiscal Recovery Funds (CSLFRF) were granted under the American Rescue Plan Act (ARPA). Illinois municipalities received an allocation of funding under CSLFRF.

The CSLFRF funds include eligibility requirements established by the Treasury and require reporting of how municipalities spend the funds to verify that it is spent on allowable activities. Therefore, the eligibility requirement is met when the money is spent on allowable activities.

ARPA stipulates certain conditions that are required to be met, such as the incurrence of eligible expenditures. Those conditions are identified, for accounting and financial reporting purposes, per paragraph 20 of GASBS No. 33, as eligibility requirements. In addition, the recipient government has the ability not to accept the resources. Therefore, the CSLFRF funds are identified as voluntary nonexchange transactions, subject to eligibility requirements rather than purpose restrictions.

Recommendation of reporting CSLFRF funding prior to meeting eligibility requirements

CSLFRF funding should be reported as unearned revenue until eligible costs have been incurred. Expenditures for, or incurred obligations of, eligible costs trigger revenue recognition.

Note:

Electing the revenue loss standard allowance/calculation, which allows governments to spend the funding on “government services,” is not considered to meet the eligibility requirements. The government is responsible for identifying applicable expenditures to meet the eligibility requirements. This concept corresponds with guidance from OMB’s compliance supplement for CSLFRF; there is no expenditure on the SEFA under the revenue loss standard allowance/calculation until the funds are identified as being spent.

Supporting guidance:

The provisions in paragraph 15 of GASBS No. 33, as amended, state the recipient government should recognize resources received from the funding as liabilities (unearned revenue) until the applicable eligibility requirements are met, including the incurrence of eligible expenditures. When the recipient government meets the eligibility requirements established in the ARP Act, that government should recognize revenue for the CSLFRF resources received.

Recommendation on revenue classification on the Statement of Activities

The grant awards for CSLFRF identify the specific programs covered but does not restrict specific amounts to specific programs. Therefore, CSLFRF revenue should be reported as general revenues on the Statement of Activities.

Supporting guidance:

Per GASB 34, paragraph 50, multipurpose grants (those that provide financing for more than one program) should be reported as program revenue *if* the amounts restricted to each program are specifically identified in either the grant award or the grant application. The grant application should be used to make this determination only if the grant award was based on that application.

The determination on whether the multipurpose grant is reported as program revenue or general revenue depends upon if the following restrictions are present in the grant award:

- specific identification of the programs covered and
- specific amounts restricted to specific programs.

If either restriction is missing, then the grant should be reported as general revenue. This is the case even if the grant award lists the programs covered but does not restrict any specific amounts to specific programs.

Implementation Guide 2015-1, 7.34.2:

Q—A local government is awarded a categorical grant that finances a large number of its programs. The grant award lists the programs covered but does not restrict any specific amounts to specific programs. Should the government allocate the grant among the covered programs and report it as program revenue?

A—No. Paragraph 50 of Statement 34 provides that the grant award is required to specify the programs to be funded and the “amounts restricted to each program.” In this case, even though the funded programs are specifically identified, the grant should be reported as general revenue because specific amounts are not restricted to each program; thus, the recipient government has the ability to allocate the grant revenue among the programs at its discretion.

Recommendation on revenue classification on the Statement of Revenues, Expenses and Changes in Net Position for Proprietary Funds

In most proprietary funds, the grant revenues will not meet the threshold to be reported as an operating revenue per paragraph 102 of GASB 34. As such, it should be reported as non-operating revenues in proprietary funds, as receiving these grants is not the core purpose or operations of the entity. Additionally, CSLFRF is not restricted to a specific purpose or function and should not be reported as capital contribution even if spent for capital purposes, see Implementation Guide 2015-1, Q 7.72.8.

Supporting guidance:

GASB 34, paragraph 102

Governments should establish a policy that defines operating revenues and expenses that is appropriate to the nature of the activity being reported, disclose it in the summary of significant accounting policies, and use it consistently from period to period. A consideration for defining a proprietary fund's operating revenues and expenses is how individual transactions would be categorized for purposes of preparing a statement of cash flows using Statement 9. Transactions for which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities normally would not be reported as components of operating income. This includes most revenues considered to be nonexchange and exchange-like, such as tax revenues and, in some cases, fees and charges (such as passenger facilities charges).

7.72.8. Q—A government has a business-type activity that it reports in a separate enterprise fund. The government received a grant from a private foundation and used the grant proceeds to purchase equipment for that activity. How should the grant be reported in the enterprise fund's financial statements? How should it be reported in the government's statement of activities?

A—In the enterprise fund, the answer depends on whether the grant is restricted for capital purposes. In the statement of activities, the answer depends on whether the grant was restricted to the specific activity. If the grant was not restricted for capital purposes but could have been used for any purpose within the activity, the government should report the grant as nonoperating revenue in the enterprise fund. On the other hand, if the grant was restricted to capital purposes, it would be reported as a capital contribution in the enterprise fund's statement of revenues, expenses, and changes in fund net position, as illustrated in paragraph 101 of Statement 34, as amended. If the grant was restricted to that specific activity (or function), the government would report it as program revenue (either operating or capital, as appropriate) in the statement of activities. If it was not restricted to that activity (or function), the grant would be reported as general revenue in the statement of activities.

Recommendation on revenue classification on the Statement of Cash Flows for Proprietary Funds

CSLFRF is considered a multipurpose grant, not a capital specific grant. As such, it should be reported as an inflow from noncapital financing activities (paragraph 21 of GASBS No. 9) on the Statement of Cash Flows.

Supporting guidance:

GASBS 9, ¶21

Cash inflows from noncapital financing activities include

- a. Proceeds from issuing bonds, notes, and other short- or long-term borrowing not clearly attributable to acquisition, construction, or improvement of capital assets.
- b. Cash receipts from grants or subsidies except (1) those specifically restricted for capital purposes (paragraph 24b) and (2) those for specific activities that are considered to be operating activities of the grantor government (paragraph 17c).

- c. Cash received from other funds except (1) those amounts that are clearly attributable to acquisition, construction, or improvement of capital assets (paragraph 24c), (2) interfund services provided (paragraph 17b), and (3) interfund reimbursements (paragraph 17d).
- d. Cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes.

Implementation Guide 2015-1, 2.27.4:

Q—What are the factors for determining whether a grant received meets the criteria for classification as an operating activity?

A—In Statement 9, the view was adopted that grants received generally should be treated as subsidies. Capital grants should be considered capital and related financing activities, and all other grants should be considered noncapital financing activities. However, it was recognized that certain arrangements that are called “grants” appear to be contracts for services. Grants of this type should be classified as operating activities. The determination of whether a grant is, in substance, a purchase of services requires the exercise of judgment. To be classified as an operating cash inflow, the grant should finance a program that the grantee would not otherwise undertake (for example, a senior citizens’ transportation service). Therefore, the grant is not subsidizing an existing program. It reimburses the costs of a new program, whose activity is inherently part of the operations of the grantor. A grant with these characteristics should be considered an “operating grant” as described in paragraph 17 of Statement 9. (See Example D in nonauthoritative Appendix B2-1.)

Related Guidance

GASB Technical Bulletin

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

U.S. Department of Treasury Final Rule on CSLFRF

<https://www.govinfo.gov/content/pkg/FR-2022-01-27/pdf/2022-00292.pdf>