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TO: ENTITIES REPORTING ON THE GAAP BASIS OF ACCOUNTING

FROM: Tammy White, CPA
 Deputy State Examiner

DATE: March 7, 2023

RE: Reporting of State and Local Fiscal Recovery Funds (ALN: 21.027)

The purpose of this memorandum is to address the proper accounting and reporting of the first and second tranche of the American Rescue Plan Act's State and Local Fiscal Recovery Fund (SLFRF) (Assistance Listing Number 21.027). Local governments received funds in two tranches, with 50 percent provided beginning in May 2021, and the balance delivered approximately 12 months later.

GASB defines and grants and other financial assistance per GASB Cod. § N50.504 as: "Transactions in which one governmental entity transfers cash or other items of value to (or incurs a liability for) another governmental entity, an individual, or an organization as a means of sharing program costs, subsidizing other governments or entities, or otherwise reallocating resources to the recipients." These types of transactions are either government-mandated nonexchange transactions or voluntary nonexchange transactions, and they may be subject to eligibility requirements, time requirements, and/or purpose restrictions. Eligibility requirements are conditions established by enabling legislation or the provider that are required to be met before a transaction (other than the provision of cash or other assets in advance) can occur.

The SLFRF awards are voluntary nonexchange transactions. Per GARS § N50.112 and 118, recipients report the cash advances as liabilities until allowable costs have been incurred and any other eligibility requirements have been met. Revenues are recognized once allowable costs are incurred.

The following gives an example of the appropriate SLFRF journal entries in accrual and modified accrual financial statements.

To record the initial receipt of the award before all applicable eligibility requirements, including time requirements, are met (resulting increase in net position is restricted):

| | Debit | Credit |
|------------------------------|-------|--------|
| Cash | XXXXX | |
| Liability - Unearned Revenue | | XXXXX |

To record a decrease in liabilities once an allowable expenditure is made:

| | <u>Debit</u> | <u>Credit</u> |
|------------------------------|-------------------|-------------------|
| Liability - Unearned Revenue | XXXXX | |
| Revenue | | XXXXX |
| | <u> </u> | <u> </u> |

To record an allowable expenditure:

| | <u>Debit</u> | <u>Credit</u> |
|---|-------------------|-------------------|
| Expenditure (General government, public safety, etc.) | XXXXX | |
| Cash | | XXXXX |
| | <u> </u> | <u> </u> |

Example: A county was awarded and received a total SLFRF award of \$20 million. In 2021, the county received \$10 million and expended \$300,000 of its first tranche on allowable costs. In 2022, the county received its second tranche of \$10 million and expended another \$900,000 on allowable costs. The county had no other transactions involving its SLFRF fund. As of the below named fiscal year ends, the accounts would report the following balances:

| | <u>December 31, 2021</u> | <u>December 31, 2022</u> |
|------------------------------|--------------------------|--------------------------|
| Cash | \$9,700,000 | \$18,800,000 |
| Liability - Unearned Revenue | 9,700,000 | 18,800,000 |
| Revenue | 300,000 | 900,000 |
| Expense | 300,000 | 900,000 |

Entities will continue to report a liability in their SLFRF fund until all funds are properly expended. As a reminder, SLFRF funds must be obligated by Dec. 31, 2024, and expended by Dec. 31, 2026. Per U.S. Treasury's final rule, an obligation means an order placed for property and services, and entering into contracts, subawards, and similar transactions that require payment.

For additional resources, see:

www.gars.gasb.org

"Whose Rules Rule?"

Government Financial Officers Association, gfoa.org/materials/gfr1222-accounting