ARPA
Fund
Accounting

VMCTA Conference
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Vermont League
of Cities & Towns

What We'll Cover:

- ARPA – A Refresher

- Grant Management & Accounting

- ARPA (Revenue Loss) Accounting Considerations & Three Approaches to Spending
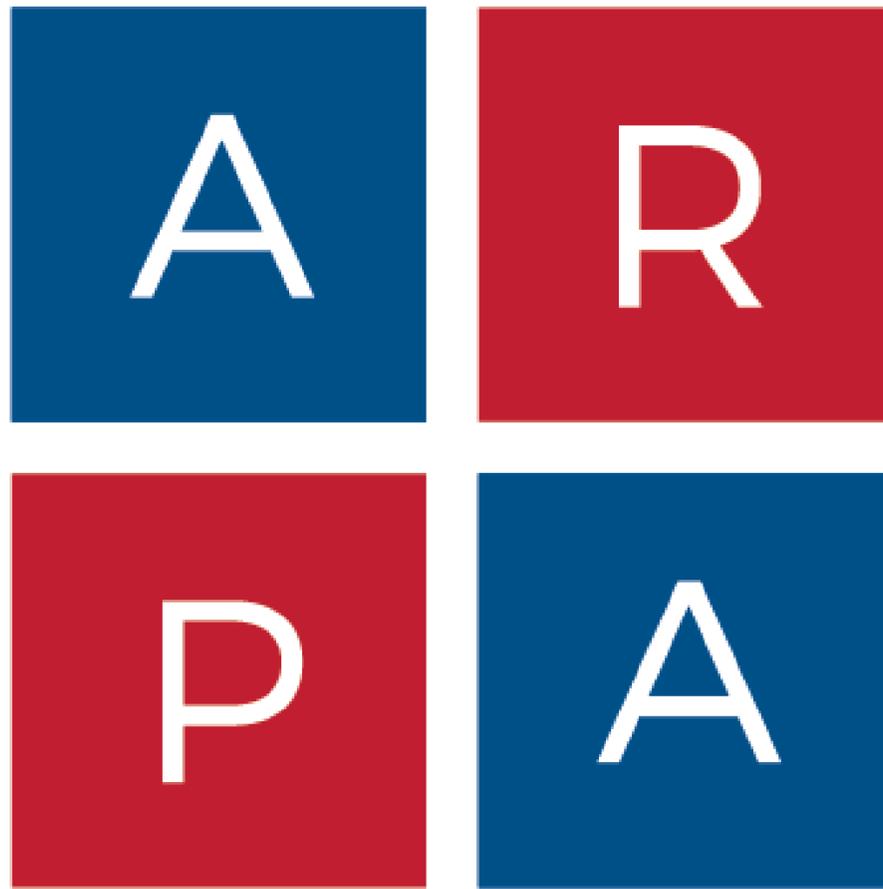
# A Refresher

- **Final Rule,** issued by Treasury on January 6, 2022, lays out the requirements of CSLFRF/ARPA funding

- Biggest, most important change is the "**Standard Allowance.**"

- Reporting period remains the same – annually by April 30th, 2022-2027

- Guidance on compliance continues to be updated regularly – mostly for the better!

- The 4th and final ARPA payment, which is the 2nd tranche of the county ARPA $ will arrive by October 15th.

- Local ARPA awards are ***direct funded*** by Treasury; the State of Vermont is ***not*** a pass-through entity.

- Vermont towns are busy planning smart ways to spend their ARPA funds!

- How have some communities spent their money already? Find out **HERE.**
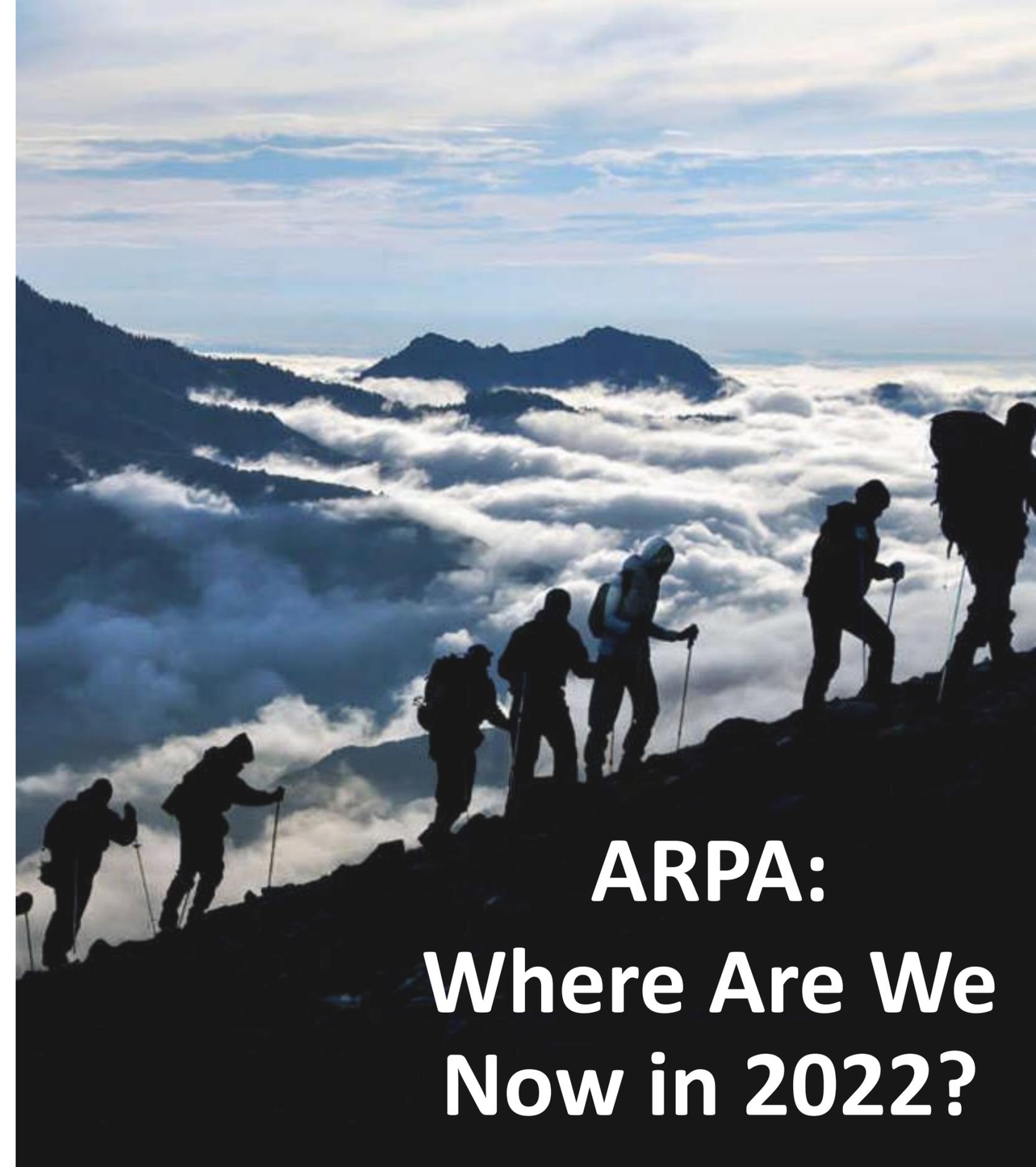
ARPA: Where Are We Now in 2022?

- "**Standard Allowance**" – Recipients may elect up to $10M of their award as revenue loss.

- All Vermont local ARPA Recipients (except Burlington) can take the full amount of their awards as revenue loss.

- *ALL* spending should be reported under **Category 6 Revenue Replacement**, regardless of the type of activities.

- If you did not report all your spending under **Category 6 Revenue Replacement** in your 2022 reporting, then you can correct it in the April 30, 2023, reporting.*

- If you did not elect the **Standard Allowance** in the 2022 reporting, then you can do so through the April 30, 2023, reporting. *

- Revenue loss funds can be spent on the "**provision of government services**"……
which is essentially anything a town wants to spend its money on

The Standard Allowance – A Rare & Beautiful Thing

*Of 276 local ARPA Recipients: only 5 did not elect the standard allowance; 6 took the standard allowance but did not report spending under Category 6; 5 did not report by April 30th as required.

ARPA - The Final Rule: Spending Restrictions

You still cannot *"directly"* fund:

❌ *"Extraordinary"* deposits into pension funds

❌ Contributions to rainy day funds, reserve funds, or satisfaction of a settlement or judgement

❌ Outstanding Debt service

But you **can** fund this:

✔️ Non-Federal Match is now allowed, explicitly for IIJA/BIL programs, but also generally as it is included under **Section G., page 368 of the final rule**,

(Why do we ❤️ this change? Because it allows towns to stretch their local ARPA awards!)

Use Existing Tools.

With so much flexibility in spending ARPA funds now, how do you prioritize? Here are some ideas to help establish selection criteria. Does/Is the use:

- Follow the intent of CSLFRF/ARPA?
  - *Fight the pandemic and support families and businesses struggling with its public health and economic impacts*
  - *Maintain vital public services, even amid declines in revenue resulting from the crisis*
  - *Build a strong, resilient, and equitable recovery by making investments that support long-term growth and opportunity*
- Comply with the Town Plan?
- Included in a Master Plan or any other plans, studies or reports?
- Included in a Capital Improvement Plan, if one exists?
- Set a precedent that will be difficult for the Town to fulfill for others in the future?
- Create an ongoing unfunded expense, after ARPA is exhausted?
- Have broad community benefit, or does it benefit just a few?
- Bring long-term value to the community for generations to come?
- Leverage other grant funds?
- Duplicate benefit - already funded through an existing program (State or other)?

ARPA....In Summary

- It is lot of money but not enough to pay for all needs

- Projects are plentiful and of all sizes

- Every community has different needs

- There is no one-size-fits-all approach

- Successful communities inform and engage their residents

- Use the tools you already have, like your Town Plan

- Use your ARPA award to unlock more money whenever possible – leverage other grant funds

- Have questions? Bookmark VLCT's ARPA webpages:
    - **https://www.vlct.org/arpa**
    - **https://www.vlct.org/arpa-faqs**
    - **https://www.vlct.org/arpa-compliance-and-reporting**
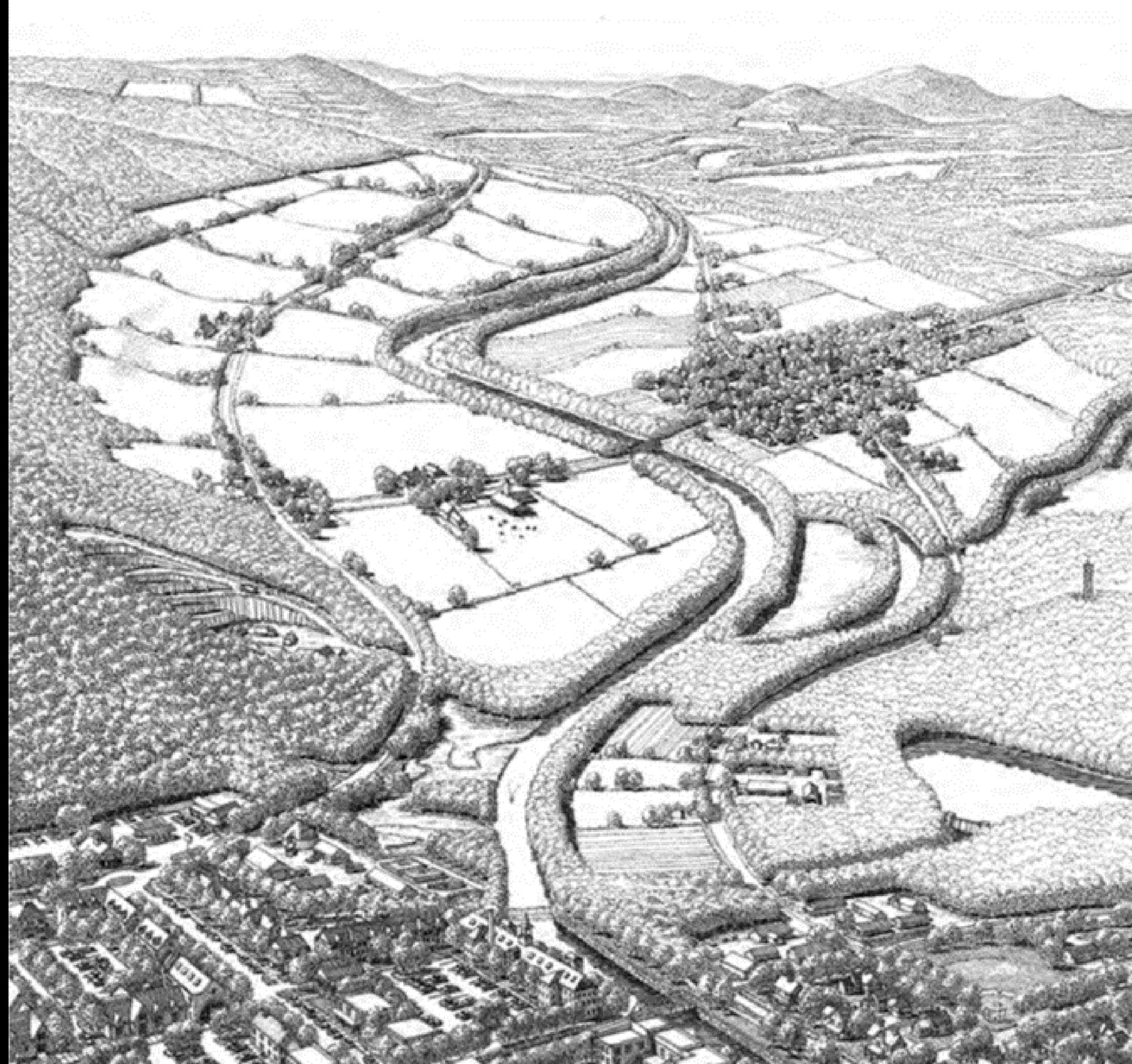
ARPA – Grant Management and Accounting

Grant Management/Administration The Basics

- Grant management is the responsibility of the award recipient = legislative body

- It can either be done with internal resources or by a hired grant administrator

- Tasks that fall under grant management include but not limited to:
  - Ensures compliance with grant award terms & conditions and other award docs
  - Ensures compliance with laws and regulations, like Uniform Guidance, as applicable**
  - Keeps organized documentation for all aspects of the grant (application through to closeout) in format acceptable to the funder (electronic in PDF format)
  - Communicates with finance staff about relevant financial aspects of the grant
  - Tracks the grant funds (if/when $ arrives and when it is spent)
  - Ensures costs charged to the grant are allowable
  - Collects required data
  - Completes required reporting
  - Works with federal auditors if monitored
  - Executes any required closeout

** The application of Uniform Guidance on ARPA spending under Category 6 (revenue loss) has relaxed. See details HERE.

Key Elements of Good Grant Management #1 Communication

- Communication is critical to a successful grant award

- Both the treasurer and the legislative body have clear roles to play

- Some tasks are statutorily defined; others must be agreed upon

- Create a grant administration team – it could be just the Treasurer and a member of the legislative body

- The grant administration team should do the following:
  - Create a list of tasks and requirements
  - Define clear roles and responsibilities
  - Assign tasks to roles
  - Create a schedule for regular check-in meetings
  - Assign a "Lead"

- "Lead" should track and communicate:
  - Requirements of the funding program
  - Critical dates
  - Updates/Changes to the program
  - Spending decisions
  - Provide regular updates to the legislative body

Key Elements of Good Grant Management
#2 Organization

- Adopt electronic; abandon paper. * (The federal government requires "machine readable" format = PDF)

- Create a single digital file folder called "ARPA Local Award"**

- Create subfolders within the "ARPA Local Award" folder:
  - ✓ Award
  - ✓ Spending Approvals
  - ✓ Spending Backup
  - ✓ Compliance
  - ✓ Reporting
  - ✓ Photos
  - ✓ Other

* If you don't have a scanner, use some of your ARPA money to buy one!

** "Local" allows you to clearly differentiate your direct ARPA funding you received from Treasury from any ARPA funds granted to the municipality through the State of Vermont's ARPA funded programs.

Key Elements of Good Grant Management #3 Documentation

What types of documents should be saved in your digital folders?

- **Award** (all documents associated with your award: signed Terms & Conditions, signed Assurance of Compliance with Civil Rights, submitted budget doc, Certification Confirmation email, etc.)

- **Spending Approvals** (copies of *meeting minutes* that approve ARPA expenditures, copies of communications about spending)

- **Spending Backup** (copies of *invoices* for all expenditures using ARPA funds; copies of signed *warrants* that contain ARPA grant spending; copies of *journal entries* made for ARPA related transactions; copies of *cancelled checks* for ARPA expenses)

- **Compliance** (copies of relevant written *polices & procedures,* as applicable to the award)

- **Reporting** (copies of *required reports* submitted the US Department of the Treasury)

- **Photos** (copies of *photos* of projects that were completed using grant funds, as applicable)

- **Other** (anything you don't know where to file but think you should keep)

Grant Accounting

General Ledger

Who will set up accounts in the General Ledger?
What are the account numbers?

Grant Invoices

Who is responsible for receiving and processing grant related invoices?

Track Costs

Who will track ongoing costs and their allowability?

Submit Requisitions

Who will submit grant reimbursement requests?
How will they ensure they have all eligible expenses included?

Receive Revenue

Who will ensure the revenue is posted correctly?
Who needs to be informed when revenue is received? Who will track the grant receivable?

Grant Reporting

Who will submit required grant financial reports?
Who will close out the grant?

Maintain Documentation

Who will maintain the grant documentation?
APRA documentation must be maintained for five years after the close of the grant

Grant Accounting

June 30th Fiscal Year vs. ARPA Reporting Cycle

April 1 — Beginning of ARPA Reporting Period

July 1 — Beginning of Municipal Fiscal Year

March 31 — End of ARPA Reporting Period

June 30 — End of Municipal Fiscal Year
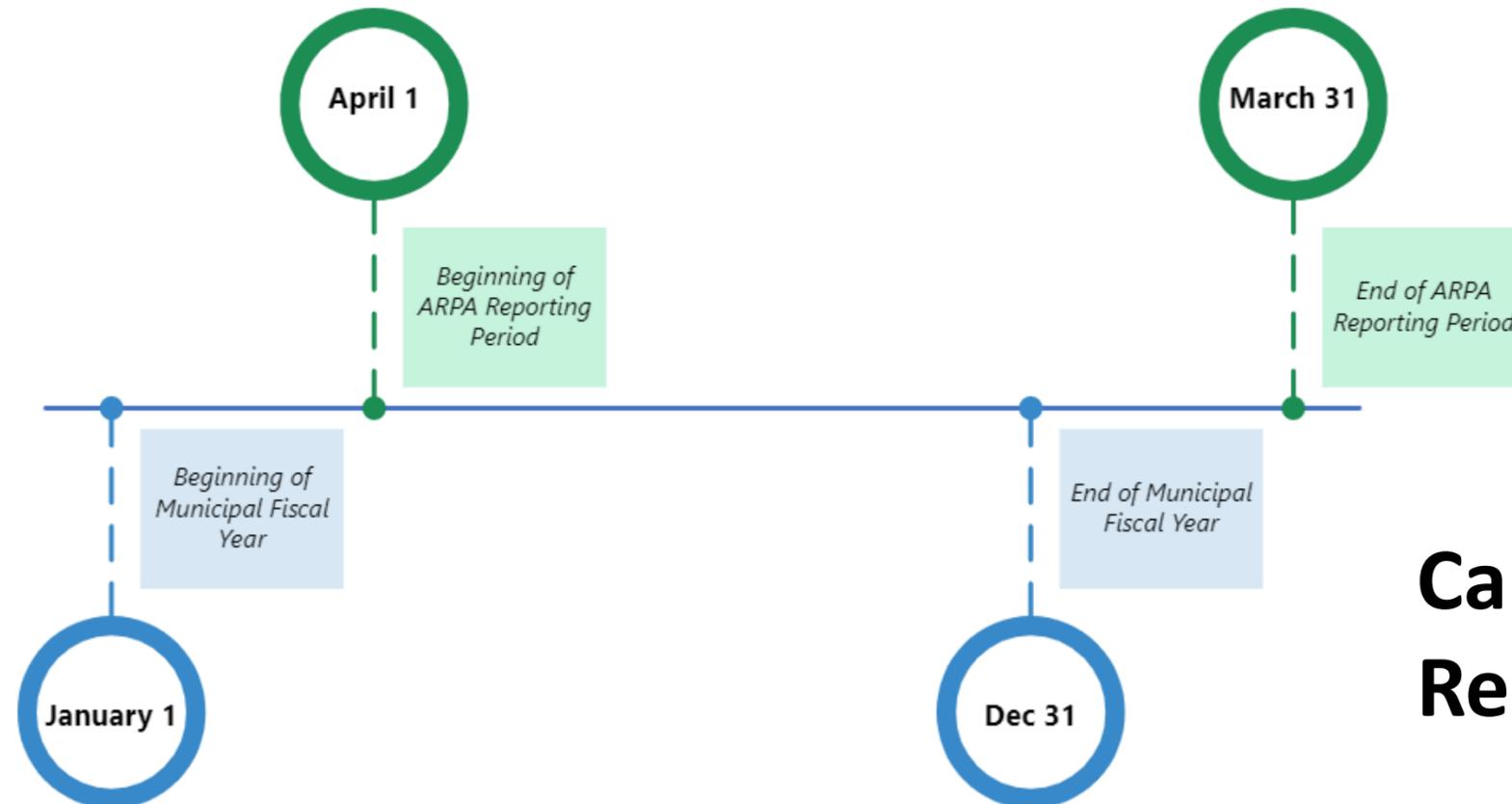
Calendar Year vs. ARPA Reporting Cycle

April 1 — Beginning of ARPA Reporting Period

January 1 — Beginning of Municipal Fiscal Year

March 31 — End of ARPA Reporting Period

Dec 31 — End of Municipal Fiscal Year
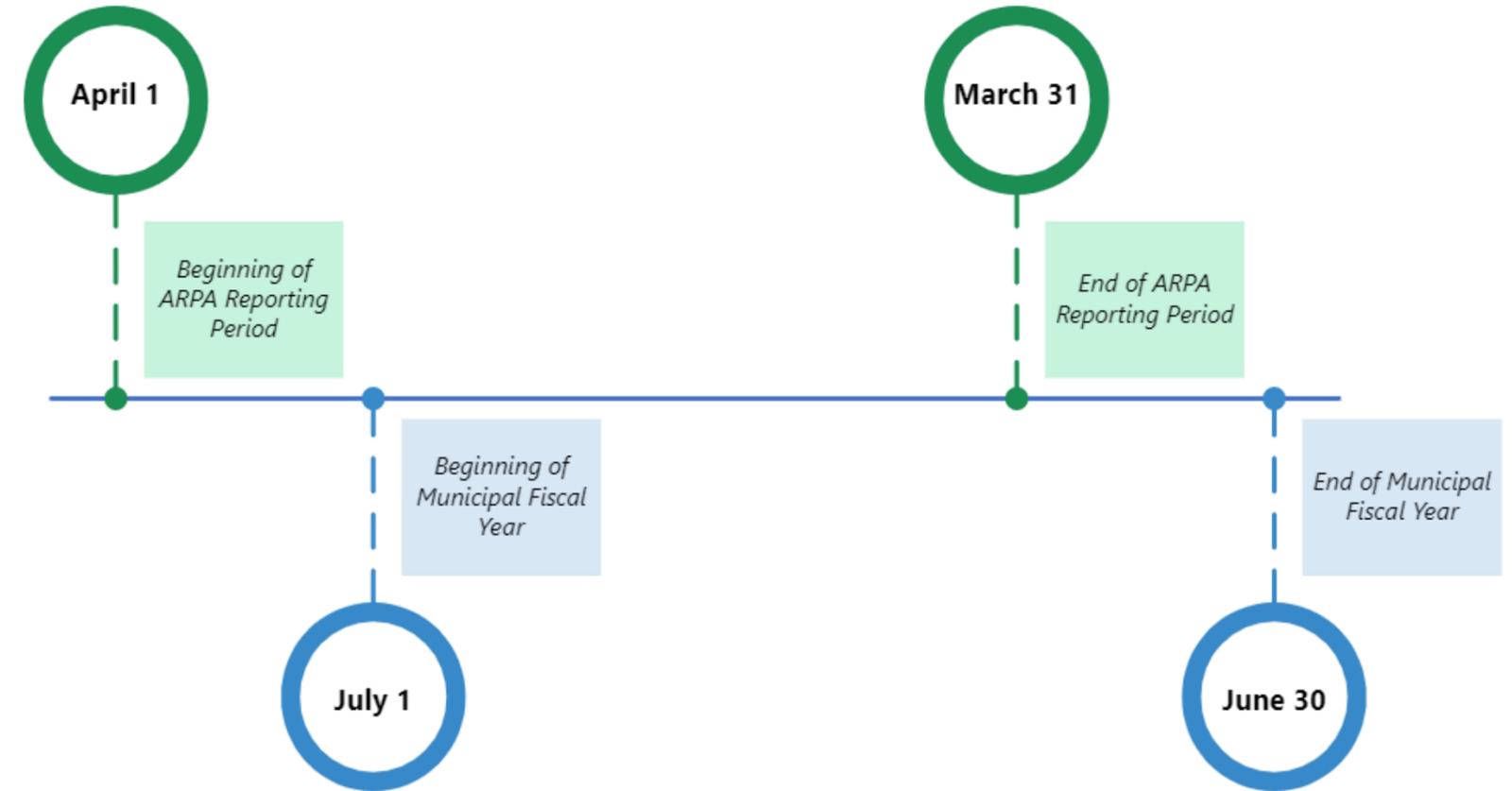
ARPA (Revenue Loss)
Accounting Considerations
&
Three Approaches to Spending

Refresher -- Basis of Accounting

Accrual Accounting

- Recognizes income at the time revenue is earned and records expenses when liabilities are incurred regardless of when cash is received or paid

- Government-Wide Statements, Proprietary Funds, Fiduciary Funds

Modified Accrual Accounting

- Recognizes revenues when they become measurable and available, and records expenditures when liabilities are incurred with a few exceptions

- Governmental Funds

Cash Basis Accounting

- Recognizes revenues and expenses at the time cash is received or paid out

- Often used in small entities

GASB Technical Bulletin No. 2020-1

- Addresses accounting issues arising from the CARES Act but is also applicable to ARPA funding (GASB 76 GAAP hierarchy)

- Specifies resources received are voluntary nonexchange transactions and are subject to eligibility requirements

- GAAP accounting = resources are liabilities until eligibility requirements have been met, only then is a revenue recognized

Revenue Recognition

Modified Accrual or Accrual Basis

- Funds are Unearned Revenue (liability) until eligibility requirements are met
- Recognize ARPA funds as revenue when they are spent

Cash Basis Accounting

- Recognize ARPA funds as revenue when received
- Any amounts unspent at the end of the year are Restricted Fund Balance

Cash Basis – Sample Journal Entries

- When ARPA money is received

Account	Debit	Credit
Asset – Cash	$ XX,XXX	
Revenue – Grant Revenue		$ XX,XXX

- When ARPA money is spent

Account	Debit	Credit
Expense – Grant Expense	$ XX,XXX	
Asset – Cash		$ XX,XXX

- Any ARPA funds left unspent at the end of the fiscal year should be reported as Restricted Fund Balance

Modified Accrual – Sample Journal Entries

- When ARPA money is received

Account	Debit	Credit
Asset – Cash	$ XX,XXX	
Liability – Unearned Revenue		$ XX,XXX

- When ARPA money is spent

Account	Debit	Credit
Liability – Unearned Revenue	$ XX,XXX	
Expenditure – Grant Expense	$ XX,XXX	
Asset – Cash		$ XX,XXX
Revenue – Grant Revenue		$ XX,XXX

- Any ARPA funds left unspent at the end of the fiscal year will not impact fund balance, unspent funds remain a liability until spent

Sample ARPA Approaches

Scenario #1: Spend Directly From Your ARPA Special Revenue Fund

Scenario #1

Expensing nonrecurring or infrequent items directly to the special revenue fund allows for comparability in the General Fund over time.

Examples:

- Purchase of land

- Additional road work

- Grant match

- Onetime purchases

Scenario #2: Use ARPA as a Revenue Source in Annual Budgeting
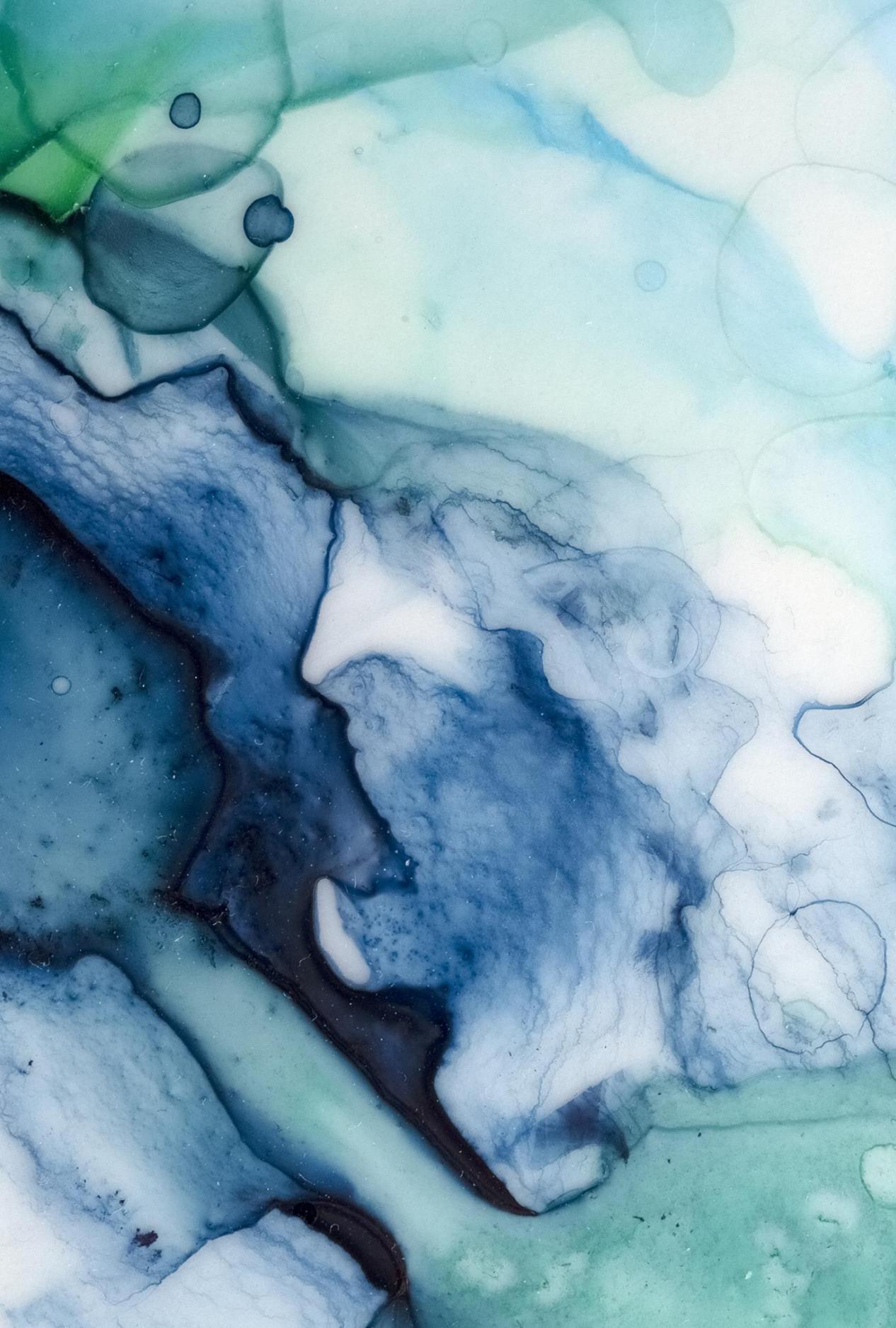
Scenario #2

- Use this approach if you want to see the ARPA funds running through the General Fund to offset cost of ARPA expenditures

- Allows for the most input in spending of the funds by including it in the annual budget process

Two budget cycles left to do this:

Calendar Year 2023 // Fiscal Year 2024

Calendar Year 2024 // Fiscal Year 2025*

*funds must be obligated by December 31, 2024

Scenario #3: Transfer to General Fund to Create Fund Balance
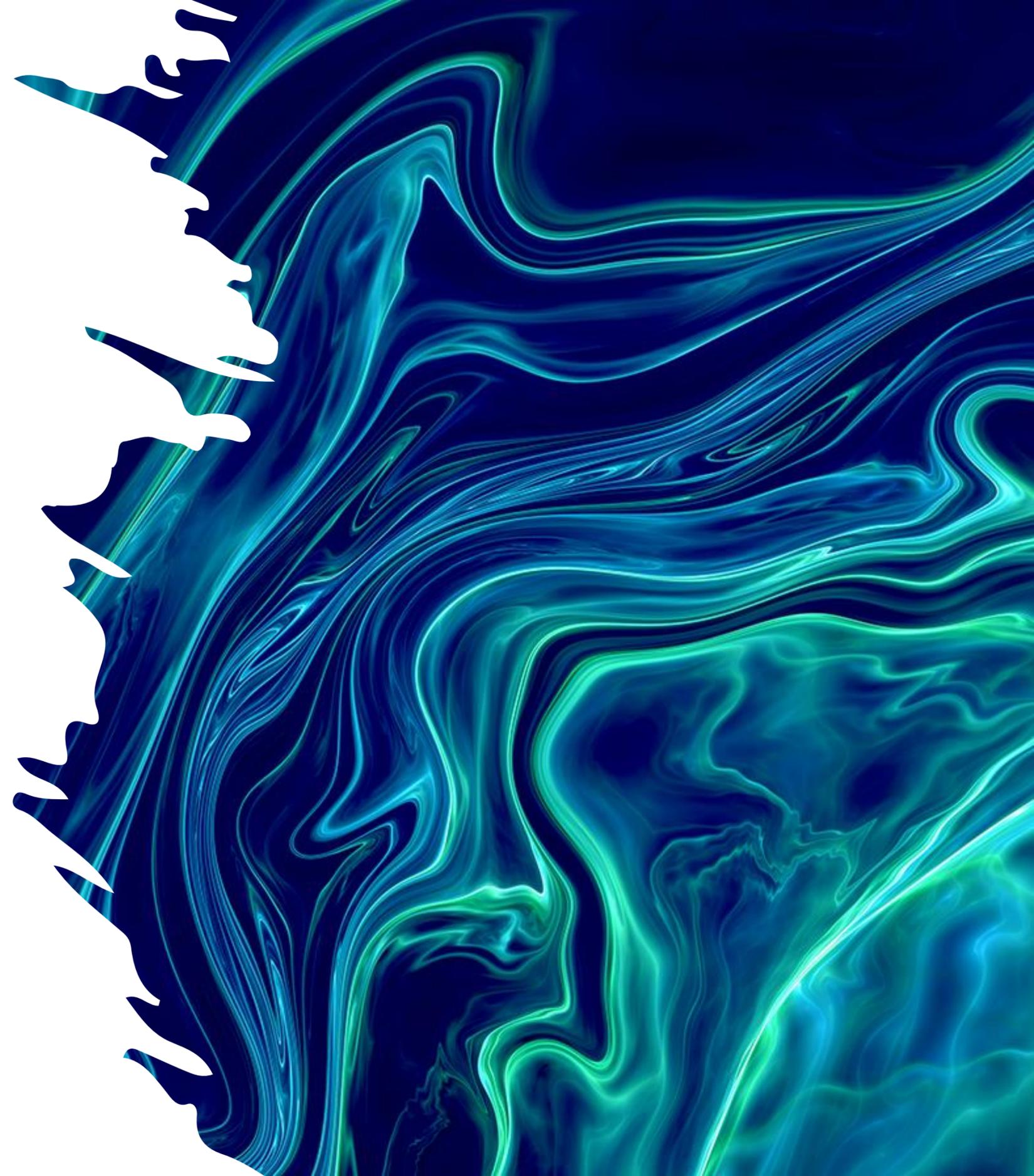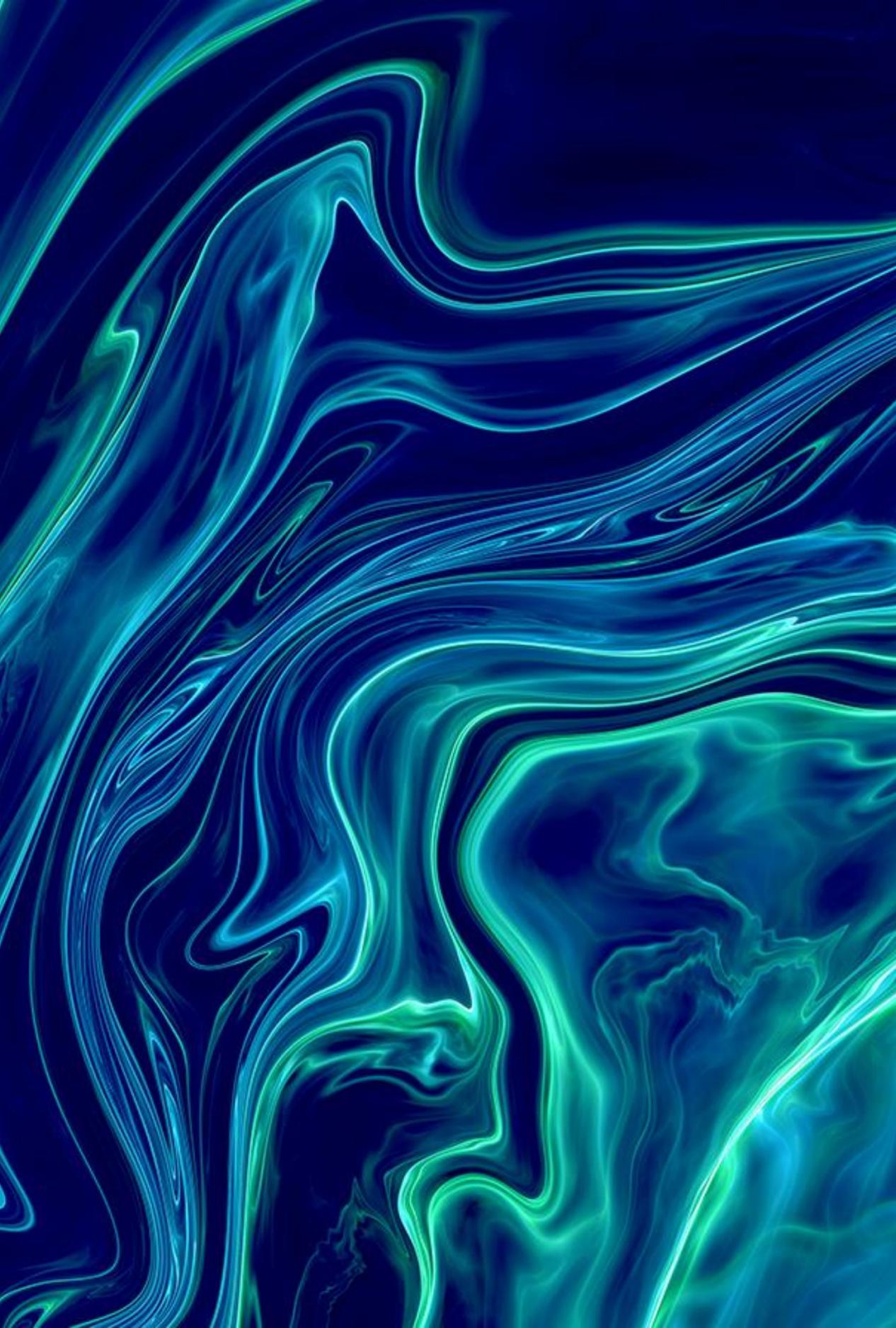
Scenario #3

When would you use this approach?

- Desired project has a long timeline, still in the early stages

- Concerned about losing out on ARPA money because of timing

- This approach uses ARPA funds for an eligible purpose, freeing up other funds with fewer restrictions to allow for a longer timeline

- Utilize future budget cycles to designate the surplus for voter approved purposes

Vermont League of Cities & Towns

Thank You!

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