



ARPA Funds Accounting, Auditing, and Budgeting Guidance

Friday, May 28, 2021

While there isn't a lot of firm guidance available on ARPA funds, some aspects have become a little clearer with the issuance of the Interim Final Rule by the UST on May 11, 2021. SLG staff, as well as SOG and NCPRO staff, have been receiving a number of questions on the accounting, auditing, and budgeting of these funds. This is not intended to be comprehensive guidance but should provide units some guardrails within which to operate until we know more.

Receiving and holding funds:

- We don't see the need to open a separate bank account for these funds unless it is the only way the unit has to track the receipts and expenditure of the ARPA funds. If an entity can track both the revenue and expenditures within its accounting system without using a separate bank account, we believe that is acceptable.

Accounting points:

- Do not comingle ARPA funds with CVR/CARES Act funds!
- ARPA funds cannot be used to build reserves. If an entity has unexpended ARPA funds at June 30, 2021 (and many of you will), it is likely best to put those funds in a Special Revenue Fund. If the funds will be spent on enterprise activities (utility infrastructure for example) they can be recorded directly in the Enterprise Funds. It is probably not a good idea to record the funds in the General Fund, because it could be construed as attempting to build reserves, and it will skew your revenue and expenditure trend information for your General Fund.
- At this time, it appears that the guidance states these funds are granted with eligibility requirements. As such, any unspent funds at year end will be recorded as a liability (not a deferral). We are awaiting additional guidance on this topic.
- Another area we are seeking more information on is the treatment of investment earnings. State statute requires that investment earnings are restricted in the same nature as the grant funds.

ARPA guidance seems to say that if funds are comingled, the investment earnings are unrestricted. Only if they are not comingled are they restricted to the same purpose as the grant. Again, we are awaiting more guidance on this topic.

Auditing Points:

- There is no reason to believe these funds will not be subject to single audit and yellow book requirements. However, it is important to remember that the thresholds for these audits is based on funds expended, not funds received. With some restraint, local entities that had not expected to be subject to yellow book or single audit requirements for 2021 can manage those expectations by not spending ARPA funds by June 30, 2021 in amounts that would exceed the threshold, including all other Federal and/or State grant funds.

Budgeting Points:

- ARPA funds must be appropriated before they are obligated. Units that intend to obligate any of these funds on or before June 30, 2021, must amend their budgets to include the funds. Units that do not plan to obligate these funds on or before June 30, 2021, can likely get by without amending their 2021 budgets.
- An option that many local governments may want to consider is to budget ARPA funds in a Grant Ordinance, allowed by G.S. 159-13.2, which can be established for a grant that covers both capital and operating funding. The budget spans the life of the grant rather than a given fiscal year.
- All units that are receiving ARPA funds must ensure that the funds are included in the 2021-2022 budget, either in the original ordinance, or added with an amendment on or after July 1, 2022. Budgets must be in place before the funds are obligated!

General Guidance

- The UST has revised the deadline for expending ARPA funds to 2026, as long as the funds are obligated by 2024. This should give units some breathing room on their decision making with regards to these funds. It is not likely that local governments will see this level of federal aid again for many years. Units need to be thoughtful about how the funds are spent, not only to ensure compliance with the restrictions on the funds, but also to ensure they are put to their highest and best use. There will likely be multiple opportunities to leverage local dollars with State dollars for needs such as infrastructure. In addition, there are other sources of funds for purposes such as education, transportation, and affordable housing. Units should consider all available sources of funds before committing to spend their local dollars. This will require some patience by local officials but should lead to more informed decision making.

For the most current information on ARPA and other COVID related funding, please visit our COVID-19 Resources webpage (<https://www.nctreasurer.com/links/state-and-local-government-finance/local-government-covid-19-resources>).

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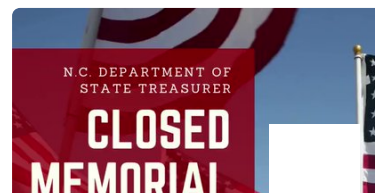
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