In late June, GASB issued a technical bulletin that clarifies recognition and reporting requirements for resources received from programs established by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), including the Coronavirus Relief Fund (CRF) and the Paycheck Protection Program (PPP). The bulletin also addresses accounting for the unplanned and additional outflows of resources due to COVID-19. This guidance is effective immediately.

Are resources received from the CRF subject to eligibility requirements or to purpose restrictions? When should those resources be recognized?

CRF resources include eligibility requirements established in the CARES Act and further clarified in several subsequent Frequently Asked Questions (FAQ) that note recipients “... shall use the funds provided under a payment made under this section to cover only those costs ... that (1) are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19) ...” The U.S. Department of the Treasury has provided supplemental guidance about what expenditures are considered necessary due to the public health emergency, including, among other expenditures, payroll related to personnel who are substantially dedicated to mitigating or responding to COVID-19, expenditures incurred to support private hospital operations, expenditures incurred to assist in preventing homelessness, and resources provided to affected citizens.

The legislation notes that CRF resources are not grants but rather “other financial assistance.” Statement 33, Accounting and Financial Reporting for Nonexchange Transactions, requires that for accounting and financial reporting, a government should focus on the substance of a transaction. The CARES Act, as clarified through FAQ, stipulates the existence of certain conditions that are required to be met. Those conditions are identified, for accounting and financial reporting purposes, as eligibility requirements. CRF funds are identified as voluntary nonexchange transactions, subject to eligibility requirements rather than purpose restrictions.

Under Statement 33, as amended, a recipient government should recognize CRF resources as liabilities until the applicable eligibility requirements are met, including the incurrence of allowable costs. Once the CARES Act eligibility requirements are met, a government should recognize revenue for CRF resources received.

Certain CARES Act programs provide resources to address the government’s loss of revenue attributable to the effects of COVID-19, for example, the U.S. Department of Health and Human Services’ (HHS) Provider Relief Fund (PRF). Does the provision of resources for the loss of revenue comprise an eligibility requirement, for purposes of revenue recognition?

Yes. Resources provided to address a government’s COVID-19 revenue losses are contingent on an eligibility requirement under requirements in Statement 33. Certain CARES Act programs provide resources to governments contingent upon specified actions of the recipient. In those cases, the modifications of services by health care entities in response to COVID-19, including the cancellations of elective procedures, were the primary actions that resulted in the loss of revenue. Revenue should be recognized as the government meets that eligibility requirement.

If amendments to the CARES Act are enacted after a government’s statement of net position date, but prior to the issuance of financial statements, should the government consider those amendments as the basis for reporting in financial statements for the period reported?
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No. Any change to the CARES Act enacted after the statement of net position date should be considered a nonrecognized subsequent event under Statement 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards. Amendments to the CARES Act, even when enacted or issued with retroactive provisions, subsequent to the statement of net position date but before the financial statement issuance do not represent conditions that existed as of the period end being reported. Any CARES Act amendments enacted subsequent to the statement of net position date should be considered in the financial statements for the reporting period in which the law or regulation was enacted.

If a governmental entity (for example, a governmental not-for-profit organization) received a forgivable loan pursuant to the PPP in the CARES Act, and the governmental entity determines that the loan will be forgiven in a subsequent reporting period based on compliance with the program requirements (compliance is achieved during the current reporting period or is expected to be achieved before the financial statements are issued), should the governmental entity continue to report the loan as a liability in the financial statements at the end of the reporting period?

Yes. Under Statement 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, the governmental entity should continue to report a loan until that entity is legally released from the debt. The governmental entity should report an inflow of resources in the reporting period when the entity is legally released from the debt.

Should CARES Act resources provided through the PRF, the Higher Education Emergency Relief Fund (U.S. Department of Education), the CARES Act Airport Grants (Federal Aviation Administration), and the Formula Grants for Rural Areas and Urbanized Area Formula Grants programs (Federal Transit Administration) to a business-type activity or enterprise fund be reported as nonoperating revenues?

Except for HHS’s Uninsured Relief Fund (URF), the aforementioned CARES Act resources are in the form of a subsidy and should be reported as nonoperating revenues. The resources provided through the CARES Act for the programs previously identified are intended to assist governments in responding to the COVID-19 pandemic in various manners, which include reimbursement of allowable costs incurred in responding to the health care emergency, assisting governments with their loss of revenue and broad support of operating costs. Provisions in Statement 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, establish that a consideration for revenue presentation as operating or nonoperating is the categorization of the inflow in the statement of cash flows. Further guidance is provided in Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, as amended, which identifies noncapital grants and subsidies as noncapital financing activities, unless those grants are contracts for services. Implementation Guide 2015-1 establishes that grants generally should be reported as nonoperating unless the resources provided are representative of a contract for services. Based on that guidance, the programs identified in this question, except for the URF, provide resources to support specific activities and reimburse for allowable costs rather than a payment of fee for services; the resources are provided as subsidies.

The URF constitutes reimbursement for care or treatment related to COVID-19 diagnoses provided to uninsured individuals and COVID-19 testing. Because URF funds constitute payment for services provided, which is similar to the health care entity receiving payment for services rendered, those resources should be reported as operating revenues.

Should outflows of resources incurred in response to the COVID-19 pandemic, including actions taken to slow the spread of the virus, adjustments in the provision of services, or as a result of “stay-at-home” orders, be reported as extraordinary items or special items?

No. Statement 34 notes that extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, notes an item is infrequent in occurrence if the type of event is not reasonably expected to recur in the foreseeable future, taking into account the environment in which the government operates. For purposes of presentation, the event being considered is the appearance of a
coronavirus disease, rather than the management’s response to the event. Based on experience, it is reasonable to expect that coronavirus diseases will recur in the foreseeable future. **Because the type of event is not infrequent, a government’s outflows of resources incurred in response to a coronavirus disease should not be reported as an extraordinary item.** Statement 34 provides that special items are within the control of management and are either unusual in nature or infrequent in occurrence. Although actions taken to slow the spread of a coronavirus disease may be within the control of management of certain governments, this type of event (the appearance of a coronavirus disease) is not within the control of management. **The outflows of resources incurred in response to the event should not be reported as special items.**

**Conclusion**
BKD will continue to follow this developing situation. As with most topics related to COVID-19, changes are being made rapidly. Please note that this information is current as of the date of publication. Visit [BKD’s COVID-19 Resource Center](http://www.bkd.com) to learn more. If you have questions about these changes, contact your BKD Trusted Advisor™ today.

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