DLS
DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

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Bulletin

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Accounting for COVID-19 Emergency Expenditures and for Reimbursements and Monies Received by Cities and Towns from CARES ACT Coronavirus Relief Funds and from FEMA

TO: Local Officials
FROM: Mary Jane Handy, Director of Accounts
DATE: June 2020

This Bulletin supplements Bulletin 2020-1, Emergency Expenditures Related to COVID-19 under G.L. c. 44, § 31 and Emergency Short-term Borrowing under G.L. c. 44, § 8(9), and provides further guidance to local officials regarding the accounting for COVID-19 emergency (emergency) expenditures and for the accounting treatment of reimbursements and other monies received by cities and towns from grants under CARES ACT Coronavirus Relief Funds (CARES ACT CvRF) as described in the May 14th letter from Michael J. Heffernan, Secretary of Administration and Finance (Secretary) to Chief Executives of Massachusetts Cities and Towns [1] and under FEMA.

Note: The information contained in this Bulletin reflects information currently in federal law and relevant guidance from the US Treasury. If this information is modified by future federal actions, the Executive Office for Administration and Finance (A&F) and/or the Director of Accounts (Director) of the Division of Local Services (DLS) may issue further guidance.

This accounting guidance pertains only to the reimbursements and monies received relative to the $150 billion of CARES ACT CvRF for Cities and Towns as described in Secretary Heffernan's letter. Other Restricted CARES revenues received from other state and federal agencies that have a specific purpose should only be used for the purpose intended. This Bulletin also provides accounting guidance for COVID-19 FEMA reimbursements.

- For FY2020, as described in Bulletin 2020-1, emergency expenditures in excess of appropriation may only be paid after written approval by the Director. The approved emergency spending authority may be increased upon approval by the Director, if needed.

- For FY2021, a city/town may make expenditures for eligible purposes under the Secretary's grant award, without appropriation, in anticipation of reimbursement from the Secretary's grant under G.L. c. 44, s. 53A.

[1] Under April 15, 2020 Declaration of Trust by the Secretary, the payments to cities and towns shall be treated as grants.

For questions regarding accounting procedures regarding this Bulletin, please contact your Bureau of Accounts field representative.

For questions regarding CARES ACT CvRF eligible expenses, reimbursements or the application process, direct them to LocalGovCaresAct@dor.state.ma.us.

Accounting Procedures:

The following outlines the accounting procedures that should be followed to properly record expenditures, reimbursements and monies received from CARES ACT CvRF and FEMA related to the COVID-19 emergency.

Establish Separate COVID-19 Emergency Funds

Establish two separate COVID-19 Emergency Fund Accounts, one fund titled "COVID-19 CARES CvRF" and the other "COVID-19 FEMA". Within these funds, at a minimum, specific expense accounts should be established according to Attachment A of the Secretary's letter.

Additionally, in each fund, a revenue account should be established. One for FEMA reimbursements in the FEMA Fund and one for CARES ACT CvRF reimbursements in the CARES ACT CvRF Fund.

At this time, due to the uncertainty of exactly what the two reimbursements will cover, the following is our best advice to determine how the emergency fund expenses should be recorded. If any FEMA reimbursement is expected for an expense, we recommend charging the expense to the FEMA Fund in the appropriate expense category. If no FEMA reimbursement is expected, we recommend charging the expense to the CARES ACT CvRF Fund in the appropriate expense category. We do not recommend splitting invoices.

The expenditures in the FEMA Fund are to be offset as FEMA reimbursements are received. After the community receives final reimbursements from FEMA, any remaining expenditures in this account might possibly be covered by CARES ACT CvRF reimbursements depending on further guidance received from the federal government. If not, any deficit will need to be provided for in the ensuing fiscal year's tax rate recap. For more detail on accounting entries, please see below.

For balance sheet purposes, the aggregate of the two COVID-19 emergency fund balances will determine whether a deficit exists at year end, since COVID-19 CARES ACT CvRF funds may cover the expenses in both funds by June 30th. The Bureau will not reduce free cash due to the deficit in this special account if properly recorded.

Because federal dollars cannot be claimed twice for the same spending, we urge you to develop an internal tracking mechanism to ensure invoices are not submitted more than once to a funding source.

Accounting for COVID-19 emergency expenditures incurred prior to this guidance:

Municipalities may already be accounting for FY 2020 COVID-19 emergency expenditures in one of two options, as permitted in Bulletin 2020-1, Part IV:

Option 1: Charging COVID-19 emergency expenditures to line item appropriations within the general fund budget, or

Option 2 Charging COVID-19 emergency expenditures directly to a COVID-19 emergency fund (special revenue fund).

If Option 1 applies, journal entries should be made to transfer the expenditures from the general fund appropriation accounts to either of the COVID-19 Emergency Funds using the guidance above to determine which is the appropriate fund. The entries to be made are as follows:

In the General Fund:

DR Due from Special Revenue Fund (CARES ACT CvRF or FEMA)

CR Expense Account

(To transfer expense paid by the general fund for the COVID-19 emergency to the COVID-19 Special Revenue Account)

In the Special Revenue Fund:

DR COVID-19 Expense Account in CARES ACT CvRF or FEMA Fund

CR Due to General Fund

(To transfer expense paid by the general fund for the COVID-19 emergency to the COVID-19 Special Revenue Account)

When the cash is actually transferred between funds, the following entries should be made.

In the General Fund:

DR Cash

CR Due from Special Revenue Fund

(To record the transfer of cash from the special revenue fund to the general fund for COVID-19 expenses originally paid in the general fund.)

In the Special Revenue Fund:

DR Due to General Fund

CR Cash

(To record the transfer of cash from the special revenue fund to the general fund for COVID-19 expenses originally paid in the general fund.)

If Option 2 applies, no entries need be made other than to classify COVID-19 expenses into the proper fund and expenditure categories according to this guidance and Attachment A of the Secretary's letter.

Accounting for revenues:

When funds are received from CARES ACT CvRF or FEMA, the revenue should be recorded in either the COVID-19 CARES ACT CvRF or the COVID-19 FEMA Special Revenue Fund in the applicable revenue account. The entry to make is as follows:

DR Cash

CR CARES ACT CvRF or FEMA Revenue

(To record CARES ACT CvRF or FEMA revenue)

Accounting for expenses:

As stated above, due to the evolving landscape of federal guidance regarding the use of CARES ACT CvRF funds, we recommend the following to determine in what COVID-19 expense fund expenses should be recorded. If any FEMA reimbursement is expected for an expense, we recommend charging it to the FEMA Fund in the appropriate expense category. If no FEMA reimbursement is expected, we recommend charging it to the CARES ACT CvRF Fund in the appropriate expense category. The journal entry to make would be:

DR Expense

CR Cash

(To record COVID-19 expense in the proper fund and account)