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# Bulletin

BUL-2021-6

## **Accounting for Coronavirus State and Local Fiscal Recovery Funds**

TO: Local Officials  
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DATE: June 2021

This Bulletin is intended to provide guidance regarding the accounting treatment of revenues received by cities and towns from the American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, signed into law on March 11, 2021 by the President of the United States. This law provides resources through the new Coronavirus Local Fiscal Recovery Fund (CLFRF) to local governments to respond to the public health emergency caused by the Coronavirus Disease (COVID-19). This fund is administered by the US Department of the Treasury (hereafter, “US Treasury” or “Treasury”).

These funds will be distributed either directly to a city or town, or through the Commonwealth of Massachusetts, in two tranches: 50% in FY2021 or FY2022, depending on when the non-entitlement unit applied, and 50% 12 months later. The uses for this grant are “forward looking,” and may be used to cover costs incurred beginning March 3, 2021 through December 31, 2024 with certain provisions for infrastructure projects beyond that timeframe.

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 funds received relative to CLFRF. Guidance regarding the accounting treatment of CARES and FEMA COVID-19 reimbursements is covered in Bulletin 2020-7, issued in June 2020.

The guidance (referred to as the Interim Final Rule or “IFR”) from the US Treasury indicates that this is a federal grant, and so the provisions of MGL 44§53A apply. Additionally, the IFR indicated that most of the provisions of the Uniform Guidance (2 CFR Part 200) apply to this program, “including the Cost Principles and Single Audit Act requirements.” This, in addition to CARES and FEMA funds received, may cause a Single Audit if a community expends \$750,000 or more in federal awards in a fiscal year. For this reason, DLS suggests communities plan for the cost of such an audit.

The IFR indicates that CLFRF Funds may be used for the following purposes:

- a) To respond to the public health emergency or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- b) To respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers;
- c) For the provision of government services to the extent of the reduction in revenue due to the COVID-19 public health emergency relative to revenues collected in the most recent full fiscal year prior to the emergency; and
- d) To make necessary investments in water, sewer, or broadband infrastructure.

There are a few ineligible uses of the revenue loss component of the CLFRF funds at this time, as we indicated in Bulletin 2021-5. This could change in the future and we recommend that you pay close attention to guidance from the US Treasury. These ineligible costs are:

- “expenses associated with obligations under instruments evidencing financial indebtedness for borrowed money...[S]pecifically, government services would not include interest or principal on any outstanding debt instrument, including, for example, short-term revenue or tax anticipation notes, or fees or issuance costs associated with the issuance of new debt.”
- “satisfaction of any obligation arising under or pursuant to a settlement agreement, judgment, consent decree, or judicially confirmed debt restructuring in a judicial, administrative, or regulatory proceeding, except if the judgment or settlement required the provision of government services. That is, satisfaction of a settlement or judgment itself is not a government service, unless the settlement required the provision of government services.”
- “replenishing financial reserves (e.g., rainy day or other reserve funds).”

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

For questions regarding eligible expenses or uses for CLFRF, please email [SLFR@treasury.gov](mailto:SLFR@treasury.gov).

We strongly encourage cities and towns to maintain a thorough level of detail and documentation as to how the CLFRF funds have been expended for ease of audit in the future. Section 9 of the FAQ's found [here](#), which provides guidance regarding reporting requirements.

### **Interest Earned on CLFRF Grant Funds:**

The updated FAQ's provided by the US Treasury (see FAQ 10.3) indicate that interest remains with the CLFRF grant account:

*“Are recipients required to remit interest earned on CSFRF/CLFRF payments made by Treasury?  
[5/27]*

*No. CSFRF/CLFRF payments made by Treasury to states, territories, and the District of Columbia are not subject to the requirement of the Cash Management Improvement Act and Treasury’s implementing regulations at 31 CFR part 205 to remit interest to Treasury. CSFRF/CLFRF payments made by Treasury to local governments and Tribes are not subject to the requirement of 2 CFR 200.305(b)(8)–(9) to maintain balances in an interest-bearing account and remit payments to Treasury.”*

### **Revenue Loss Calculation:**

Although DLS will not be reviewing, approving or overseeing the revenue loss calculation, Section 3 of the FAQ’s (see link above) provides extensive guidance regarding the use of CLFRF funds to mitigate the effects of revenue loss caused by the pandemic. Of note, FAQ 3.11 indicates the following regarding the source of data used for the revenue loss calculation:

*“In calculating revenue loss, should recipients use their own data, or Census data? [6/8]*

*Recipients should use their own data sources to calculate general revenue, and do not need to rely on published revenue data from the Census Bureau. Treasury acknowledges that due to differences in timing, data sources, and definitions, recipients’ self-reported general revenue figures may differ somewhat from those published by the Census Bureau.”*

Additionally, in FAQ 3.1, the following definition of general revenue is provided:

*How is revenue defined for the purpose of this provision?*

*The Interim Final Rule adopts a definition of “General Revenue” that is based on, but not identical, to the Census Bureau’s concept of “General Revenue from Own Sources” in the Annual Survey of State and Local Government Finances. General Revenue includes revenue from taxes, current charges, and miscellaneous general revenue. It excludes refunds and other correcting transactions, proceeds from issuance of debt or the sale of investments, agency or private trust transactions, and revenue generated by utilities and insurance trusts. General revenue also includes intergovernmental transfers between state and local governments, but excludes intergovernmental transfers from the Federal government, including Federal transfers made via a state to a locality pursuant to the CRF or the Fiscal Recovery Funds.*

Regarding the underlined sentence above, we are providing a link to the US Census Bureau’s guidance on this subject. Please note the section on Intergovernmental Revenue from State Governments on page 4-24 found [here](#).

### **Accounting Procedures:**

The following outlines the accounting procedures that should be followed to properly record the receipt and expenditure of CLFRF funds. While these CLFRF funds are a federal grant not requiring appropriation by the legislative body, we recognize that cities and towns may choose to do so for various reasons. Our guidance will address both expenditures charged directly to the grant as well as local legislative actions.

### **Establish Separate CLFRF Fund**

Establish a grant account in the special revenue fund (SRF) for the CLFRF grant that is separate from any other COVID-19 grant funds received, in accordance with UMAS procedures for revenue

recognition. We recommend that this grant fund be titled “ARPA Grant.” Communities should consult with their audit firms as to the appropriate level of detail that should be maintained there, for ease of audit.

### **Expenditures Charged Directly to the Grant**

As a federal grant, the approval of expenditures of grant funds follows [the provisions of G.L. c. 44, § 53A](#) and qualifying expenditures can be charged directly to the grant. In this case, there would be no transaction to record on the tax rate recap. We recommend maintaining an appropriate level of documentation of these expenditures as well as general ledger detail. As mentioned earlier, we suggest you contact your audit firm for guidance.

### **Revenue Loss**

A transfer may be made to the general fund, or any other fund, to increase fund balance of that fund to compensate for revenue loss that occurred because of the pandemic. If these revenue loss funds were appropriated by the legislative body, see the two examples that follow below. However, if a transfer to the general fund or another fund is being made without appropriation by the legislative body simply to restore lost revenues to that fund, there would be no transaction to show on the tax rate recap, and the following journal entry would be made:

#### SRF:

DR.	CLFRF Fund – Other Financing Uses	XXX,XXX	
CR.	Cash		XXX,XXX

(To charge the SRF CLFRF for funds transferred to the general or other fund.)

#### General Fund (or other fund):

DR.	Cash	XXX,XXX	
DR.	General Fund – Other Financing Sources		XXX,XXX

(To record the receipt in the general fund (or other fund) of CLFRF funds transferred from special revenue.)

The US Treasury has provided the following guidance in FAQ 9.4 regarding documentation of expenditures funded by the revenue loss funds:

*“For recipients using Fiscal Recovery Funds to provide government services to the extent of reduction in revenue, the description of government services reported to Treasury may be narrative or in another form, and recipients are encouraged to report based on their existing budget processes and to minimize administrative burden. For example, a recipient with \$100 in revenue replacement funds available could indicate that \$50 were used for personnel costs and \$50 were used for pay-go building of sidewalk infrastructure.”*

### **Offset to Legislative Appropriations**

If the CLFRF funds are going to be used to offset appropriations made from taxation by the legislative body of the city or town, the CLFRF funds should be shown on recap page 3 “Local Receipts Not Allocated,” Line 23 “Miscellaneous Non-recurring.” This is a non-Municipal Revenue Growth Factor (MRGF) line.

If the appropriation is voted as funded by a transfer of funds from the CLFRF, the vote would be shown as a transfer of funds on form B-2 of the tax rate recap.

In both cases, the journal entry to transfer the funds from the CLFRF SRF account to the general fund is as follows:

SRF:

DR.	CLFRF Fund – Other Financing Uses	XXX,XXX	
CR.	Cash		XXX,XXX

(To charge the SRF CLFRF for funds transferred to the general fund.)

General Fund:

DR.	Cash	XXX,XXX	
DR.	General Fund – Other Financing Sources		XXX,XXX

(To record the receipt in the general fund of CLFRF funds transferred from special revenue.)

Again, please contact your audit firm to determine the appropriate level of documentation that should be maintained regarding these appropriations for ease of audit in the future.

**Capital Projects**

If CLFRF funds are a financing source for infrastructure projects allowed by the IFR, a capital project account should be set up in the capital project fund (CPF) for each distinct project. Again, the CLFRF funds should be transferred as revenue in a separate revenue account within the CPF from the SRF. The entry is to be made as follows:

SRF:

DR.	CLFRF Fund – Other Financing Uses	XXX,XXX	
CR.	Cash		XXX,XXX

(To charge the SRF CLFRF for funds transferred to the CPF.)

CPF:

DR.	Cash	XXX,XXX	
DR.	CPF – Other Financing Sources		XXX,XXX

(To record the receipt in the CPF of CLFRF funds transferred from special revenue.)