

## CARES Act USAS Fund Numbers & Accounting Guidance for Schools

This notification is to inform you of the creation of the following funds to account for monies received through the Coronavirus Aid, Relief, and Economic Security (CARES) Act:

### 507 Elementary and Secondary School Emergency Relief (ESSER) Fund

**Authority:** Catalog of Federal Domestic Assistance #84.425D

**Purpose:** To provide emergency relief grants to school districts related to the COVID-19 pandemic. Restrictions include, but are not limited to, providing for coordination of preparedness and response efforts, training and professional development of staff, planning and coordination during long-term closure, and purchasing technology for students.

**Classification:** Governmental Fund Type, Special Revenue Fund

### 508 Governor's Emergency Education Relief (GEER) Fund

**Authority:** Catalog of Federal Domestic Assistance #84.425C

**Purpose:** To provide emergency support through grants to schools that have been most significantly impacted by coronavirus. These monies are restricted to support the school to continue to provide educational services to the students.

**Classification:** Governmental Fund Type, Special Revenue Fund

### 510 Coronavirus Relief Fund (CRF)

**Authority:** Catalog of Federal Domestic Assistance #21.019

**Purpose:** To cover costs that are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19).

**Classification:** Governmental Fund Type, Special Revenue Fund

**Note:** Each CRF funding stream should be accounted for through a separate special cost center within fund 510. In addition to the main funding stream from ODE, schools could also receive CRF funding from the School Broadband Connectivity Grant and from CRF monies received from other sources (i.e., other local governments).

If you receive COVID-19 related funding through other Federal programs under the CARES Act or other Families First Coronavirus Relief Funding Act, these amounts can be accounted for through a separate special cost center of an existing Federal Fund (if the COVID-19 funding is related to a pre-existing program) or through a separate special cost center in fund 599 (if the COVID-19 funding is related to a new Federal program). While these COVID-19 funds must be separately accounted for, schools do not need to seek Auditor of State approval to establish the new funds/SCCs.

Certain expenditures made dating back to early March could be allowable expenditures under the CARES Act and Families First Coronavirus Relief Funding Act. School districts should refer to the terms and conditions of their grant agreements to determine the period for which expenditures are eligible to be reimbursed or charge to their applicable programs. The exact period varies slightly among different programs; however, expenditures dating back to March 13, 2020, for example, can be reimbursed by the ESSER program. These expenditures may have been made prior to receiving the CARES Act money.

If school districts opt to use ESSER or other COVID-19 funding to reimburse eligible expenditures already made, dollars should be advanced to the appropriate CARES Act fund (507, 508 or 599), usually by the general fund (no advance is required if the exception noted below applies). The ESSER and GEER Fund expenditures should be allocated to the appropriate fund as each Federal fund needs to reflect how those dollars were used for compliance and special reporting purposes. Once the ESSER and GEER monies are received, they can be receipted into the respective fund and advanced back to the general fund (no advance is required if the exception noted below applies).

It is important that school districts make sure all FY20 COVID-19 expenditures being claimed to these programs are reflected in the respective funds prior to closing their FY20 books, regardless of when the related revenue is received from ODE.

Consistent with Ohio Rev. Code § 3315.20, school districts do not need to book an advance if all of the following conditions are satisfied:

- The school district has a request for payment pending with the state sufficient to cover the amount of the deficit. [Ohio Rev. Code § 3315.20(A)]
- There is a reasonable likelihood that the payment will be made. [Ohio Rev. Code § 3315.20(A)]
- The unspent and unencumbered balance in the school district's general fund is greater than the aggregate of deficit amounts in all of the school district's special funds. [Ohio Rev. Code § 3315.20(B)]

School districts should note that if FY20 expenditures are reflected in a CARES Act fund, but the school district has not requested funds prior to June 30, 2020, the above exception may not be met and an advance may be required.

In July 2020, ODE announced Ohio schools would be eligible to receive CRF federal financial assistance that the state received from the U.S. Department of Treasury. The CARES Act requires that the payments from the CRF only be used to cover expenses that—

- are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and

- were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

The U.S. Department of Treasury has Frequently Asked Questions regarding allowable uses of the CRF available at: <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Frequently-Asked-Questions.pdf>.

When reimbursing qualifying CARES Act expenditures from a prior year, the CARES Act Fund should show the adjusted expenditures in the function/object related to the original expenditure. Schools should follow the guidance below for recording qualifying reimbursements:

- If the original expenditure was made in a CARES Act Fund in FY20 and the adjustment is made in FY21, record a refund of prior year expenditure in the CARES Act Fund making the original payment and record the expenditure in the appropriate CARES Act Fund using the function/object related to the original expenditure.
- If the original expenditure was made in the general fund in FY20, and the adjustment is made in FY21, recording a refund of prior year expenditure, reducing the expenditure in the general fund, or having the general fund bill the CARES Act Fund would all be acceptable options.
- If the original expenditure was made in FY21 and the adjustment is made in FY21, reduce the expenditure in the fund making the original payment and record the expenditure in the appropriate CARES Act Fund.

Schools will want to follow ODE guidance when reporting CARES Act expenditures to ODE.

As a general rule under §2 CFR 200.502, expenditures should be recognized on the Federal Schedule in the year they are incurred (i.e., when the underlying goods received and/or services rendered) regardless of when they are eventually reimbursed. Whether local governments should report the expenditure at the time of obligation or time of cash payment is dictated by the accounting basis the school uses to prepare its Federal Schedule. Most schools prepare their Federal Schedule on the cash basis of accounting. If cash basis is used, the Federal Schedule should recognize the expenditure when the cash payment is made, regardless of when reimbursement occurs.

Questions sometimes arise about what constitutes a transfer per Ohio Rev. Code §§ 5705.14-.16. Therefore, the AOS has developed guidance in the OCS in determining the proper accounting and legal noncompliance reporting treatment for transfers. GASB Cod. 1800.102 defines “Interfund Reimbursements” as “repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.” However, under the terms of Ohio Rev. Code § 5705.10, such reimbursements would be illegal transfers (subject to possible Finding for Adjustment) if the fund initially paying violated restrictions on its resource use. It is generally preferable to advance money per AOS Bulletin 1997-003; however, advances may not always be possible. FEMA grants often require reimbursements, so they provide a useful reimbursement example subdivisions sometimes encounter. AOS Bulletin 1998-013 describes other acceptable alternatives to treating these transactions as a reimbursement on the face of the financial statements. While this Bulletin is specific to FEMA grants, subdivisions can generally apply the guidance therein to any reimbursement transaction.

Local governments should work with their legal counsel to determine whether interfund reimbursements related to federal COVID-19 funding constitute reimbursements of allowable expenditures under the applicable COVID-19 federal program. If so, AOS Bulletin 98-013 and page 50 of the Ohio Compliance Supplement Implementation Guide (“Interfund Reimbursements”) recognize an accounting principle that

permits an entity to reimburse a fund by reducing the expenditure in the fund that made the original payment and recording the expenditure in the fund that contains the federal moneys once the federal moneys have been received. In addition, OBM has suggested this method as a way to use CRF moneys received by a local government under HB 481 to reimburse funds that previously paid for eligible Coronavirus Relief Fund (CRF) expenses.

The Auditor of State's office recommends that every local government consult its own legal counsel for advice pertinent to the local government's particular situation to ensure that ORC 5705.14-.16 are not violated. Where disagreement over the application of a rule or statute arises, AOS will give all due consideration to a well-reasoned legal opinion provided by the local government's legal counsel.

As a reminder, refund of prior year receipt/expenditure are not an allowable GAAP basis other financing source/use and should be reclassified. Also, interfund reimbursements should not be reported as transfers on a GAAP basis. Interfund reimbursements are reported as an expenditure/expense in the fund ultimately responsible and as a reduction of expenditure/expense in the fund being reimbursed. These reclassifications should also be made on OCBOA Statements which follow GAAP financial statement presentation requirements.

For questions, please contact LGS at 800-345-2519.