GAAP ACCOUNTING AND BUDGETARY ACCOUNTING FOR CASH FLOW LOANS, DEQ EMERGENCY BRIDGE LOANS, AND SUBSEQUENT FEMA REIMBURSEMENT GRANTS

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Many of you in western North Carolina that suffered damage from Hurricane Helene have received a cash flow loan recently through the Department of State Treasurer (DST) and/or an emergency bridge loan for your utility systems from the Department of Environment Quality, Division of Water Infrastructure (DEQ-DWI). These loans must be accounted for in the 2024-2025 fiscal year both for budgetary and financial accounting purposes. Please keep in mind those are two different perspectives on the same group of transactions.

There are several options for accounting for and budgeting these funds, each with their own advantages and disadvantages. In addition, there are GASB rules that dictate how these funds are reported in the financial statements, depending on the choices made by the reporting government. Below is a brief summary of what we believe are the most likely approaches (or combination of approaches) and the budgeting and reporting impacts of each approach. Following this discussion, there are more detailed descriptions that include the journal entries that will need to be made for each approach. Kara Millonzi has published a blog post on how to budget for these loans and this memo dovetails with her budgetary approaches. You may access the blog post here.

POSSIBLE APPROACHES FOR BUDGETING AND ACCOUNTING FOR CASH FLOW LOANS AND SUBSEQUENT FEMA REIMBURSEMENT GRANTS:

General Fund and Capital Projects Funds Approach:

- Record the receipt of the cash flow loan, and all governmental non-capital disaster recovery expenditures in the General Fund.
- Record the receipt of the DEQ Emergency Bridge Loan in the Enterprise Capital Project Fund. Record all capital disaster recovery expenditures in the appropriate Capital Project Fund, including utility related expenditures in the Enterprise Capital Project Fund.
- Record the capital-related FEMA Reimbursement Grant funds in the appropriate Capital Project Funds.
- Repay the cash flow loan from the General Fund and repay the DEQ loan from the Enterprise Fund.
- Advantages:
    - An additional accounting fund is not required
    - Records all FEMA revenue in the funds where the expenditures are recorded
- Disadvantages:
    - Cash flow loan will be recorded as a fund liability in the General Fund, which will negatively impact your available fund balance, assuming all funds have been spent by the end of the fiscal year.
    - All non-capital disaster recovery expenditures recorded in the General Fund will skew total expenditures in the fund, pushing them higher than normal. This also will negatively impact the fund balance available ratio that is used as a financial performance benchmark.

Grant Project Fund and Capital Projects Funds Approach:

- Record the receipt of the cash flow loan, all governmental non-capital disaster recovery expenditures, and all related FEMA Reimbursement Grant proceeds in the Grant Project Fund.
- Record all governmental (non-enterprise) capital outlay expenditures in the General Capital Projects Fund and all related FEMA Reimbursement Grant proceeds in the General Capital Projects fund.
- Record the receipt of the DEQ Emergency Bridge Loan in the Enterprise Capital Project Fund. Record all enterprise capital disaster recovery expenditures in the Enterprise Capital Project Fund, along with all related FEMA Reimbursement Grant proceeds.
- Repay the cash flow loan from the Grant Project Fund and repay the DEQ loan from the Enterprise Fund, transferring the appropriate amount of FEMA Reimbursement Grant proceeds from the Enterprise Capital Project fund to the Enterprise Operating Fund.
- Advantages:
  - Tracks all FEMA revenue in the funds where it is being spent.
  - Recording of the cash flow loan will still result in a fund liability but it will be in the Grant Project Fund and not the General Fund, so no impact on fund balance benchmarks.
  - Recording the expenditures in funds other than the General Fund will reduce the impact of recovery costs on fund balance available benchmarks.
- Disadvantages:
  - Have to create and budget for another fund – Grant Project Fund.

BUDGETING FOR CASH FLOW LOANS, DEQ EMERGENCY BRIDGE LOANS, AND FEMA REIMBURSEMENT GRANT PROCEEDS

Many of you have chosen to budget the receipt and expenditure of the cash flow loan proceeds in your General Fund. Legally, there is no problem with this approach and one of our examples will illustrate the budgeting and accounting for this method. However, **units must be aware that the accounting and financial reporting for the loan will reduce the total fund balance and fund balance available in the General Fund after the loan has been received and the cash has been expended**. This is because the loan must be reported as a fund liability. To avoid this negative impact to the General Fund, units can choose instead to budget and expend the loan proceeds through a Grant Project Fund (GPF), which is a special revenue fund, utilizing a Grant Project Ordinance (GPO) for budgeting.

Please keep in mind that **for GAAP reporting purposes, capital items cannot be accounted for in a special revenue fund.**

Please note that it is not too late to change from one approach to another. If you originally budgeted and accounted for the cash flow loan and your FEMA related expenditures to date through the General Fund, you can choose to move those items to a Grant Project Fund. Board action is required to establish the GPF and to adopt the related GPO. You also would need to amend the General Fund budget. **If you decide to make this change, or to move transactions to or from other funds, we strongly recommend you do that before the end of this fiscal year – by June 30, 2025.** This will eliminate any additional discussion and disclosure of an accounting change that is required by GASB 100.

Budgeting Cash Flow Loans Using the General Fund Approach

The town or county should budget for the following, through an amendment to its current year annual budget ordinance:

- the receipt of the cash flow loan funds,
- the appropriation of the cash flow loan funds,
- any repayment of the loan funds in the current year,
- the appropriations for the disaster recovery expenditures it expects to spend during the current fiscal year not including those being covered by the cash flow loan,
- the amount it reasonably expects to receive in FEMA reimbursements in the **current fiscal year only**.

This will essentially be the process for all subsequent fiscal years in which the entity expects to spend disaster recovery funds and/or expects to receive reimbursements from FEMA. If subsequent loan proceeds are distributed, they also would be budgeted in the same way as discussed here. Keep in mind that funds must be budgeted before they can be obligated, including the cash flow loan proceeds. As always, the budget can be amended in any given year at any given time as the data becomes clearer.

Budgeting Cash Flow Loans Using the Grant Project Fund Approach

The city or county will need to establish the Grant Project Fund (GPF) through board action and adopt the fund's multi-year budget. This budget should include:

- the receipt of the cash flow loan funds,
- the appropriation of the cash flow loan funds,
- the repayment of cash flow loan funds,
- the appropriations for the non-capital disaster recovery expenditures it expects to spend over the life of the disaster recovery period,
- the amount it reasonably expects to receive in FEMA reimbursements across all years (not including reimbursements for capital expenditures, which will be recorded in the various capital project funds).

Keep in mind that funds must be budgeted before they can be obligated, including the cash flow loan proceeds. Like any other fund, the budget can be amended at any time as the data becomes clearer.

Budgeting DEQ Emergency Bridge Loans Using the Enterprise Capital Project Fund

The city or county will need to budget any DEQ Emergency Bridge Loan proceeds in an Enterprise Capital Projects Fund. This is the only appropriate approach with this funding source. This budget should include:

- the receipt of the emergency loan funds,
- the appropriation of the emergency loan funds,
- the repayment of emergency loan funds,
- the amount it reasonably expects to receive in FEMA Reimbursement Grant proceeds across all years as a result of these expenditures.

Keep in mind that funds must be budgeted before they can be obligated, including the cash flow loan proceeds. Like any other fund, the budget can be amended at any time as the data becomes clearer.

Budgeting for Capital Outlay

Depending on the nature of any given capital expenditure, it may be budgeted (and subsequently reported) in the General Fund, a general Capital Projects Fund, or an Enterprise Capital Project Fund. It is preferable that significant capital expenditures be reported in a capital projects fund so that the totals don't distort your operating results in the General Fund or in the Enterprise Operating funds. FEMA Reimbursement Grant proceeds may likewise be budgeted coming into the General Fund, the Enterprise Fund, or in the appropriate Capital Project Funds. Again, it is preferable that these proceeds not run through the General Fund for the same reasons stated above. See pages 7 through 22 for examples.

YEAR END GAAP FINANCIAL REPORTING OF LOANS

There has been much discussion about how to account for both the DST Cash Flow Loans and the DEQ Emergency Loans in the year-end GAAP financial statements, with most of that discussion focused on the DST Cash Flow loans expended on governmental fund transactions.

The GASB does not provide extensive guidance in any of its statements, interpretations, codifications, or implementation guides on these types of loans in governmental funds. As a result, we turned to the definition of a liability, and specifically that of a governmental fund liability and the guidance in GASB Codification Section B50 on Bond, Tax, and Revenue Anticipation Notes, to guide us in writing this memo. We also consulted with former and current GASB staff members as well as staff at GFOA. As a result, we believe that the DST Cash Flow Loans are governmental fund liabilities until repaid or until such time when the borrowing entity determines with certainty that it will not receive any further cash resources related to recovery from the sources identified in the loan agreement as being sources of repayment.

The DST Cash Flow loan agreement specifically states that "Notwithstanding the Repayment Terms as stated on Page 1 of this Agreement, if RECIPIENT receives funding support from the federal government for expenditures covered under the FEMA Public Assistance Worksheets used as the basis for this Agreement, RECIPIENT shall repay NCDST the equivalent amount of loan proceeds within five (5) business days of receipt of the federal funding support". It also goes on to state that "If RECIPIENT obtains alternative funds pursuant to subdivision (ii) of this subsection g., RECIPIENT shall promptly remit such funds to NCDST", with subdivision (ii) referring to funds received from insurance, other federal aid, and private donations.

We find it highly unlikely that our local governments will not receive sufficient funding from these combined sources in a relatively short period of time. Some entities have already received emergency disaster recovery funds from FEMA, and Governor Stein announced last week that an additional $48 million had just been released from FEMA. Because the nature of the loan agreement requires that borrowers use these dollars to repay the loan within 5 days of receipt, it does not appear that these loans qualify as anything but governmental fund liabilities, assuming the loan funds were used for governmental fund expenditures.

In your enterprise funds, there is no question that the DST Cash Flow Loans and the DEQ Emergency Loans are fund liabilities. The only determination to be made is the classification as current vs. long-term. We believe, using the same logic as applied to the governmental fund discussion above, that these should be current liabilities unless the borrower knows with certainty that it will not receive any further cash resources that would need to be paid to DEQ. At that point, the borrower would look at the remaining term of the loan and determine if it is a current or long-term loan; all amounts owed are due by June 30, 2030. Please keep in mind that the sources of repayment for the DEQ loan are “federal or state disaster relief”.

PLEASE NOTE: The entries in this memo are for illustrative purposes only to demonstrate the accounting and budgeting. They are not indicative of the expected timing of FEMA or other reimbursements that will trigger loan repayment.

ACCOUNTING AND REPORTING FOR CASH FLOW LOANS, REPAYMENT OF THE LOANS, DISASTER RELATED EXPENDITURES, AND FEMA REIMBURSEMENTS

The actual accounting for the cash flow loans and all disaster recovery inflows and outflows will likely be different from the budgeting entries due to measurement differences, timing issues and the availability of funds. **(See Note 1 on page 24 to this memorandum.)**

Financial Reporting - Governmental Funds

Regarding the cash flow loans, GAAP dictates that these be treated as fund liabilities, similar to a grant anticipation note. Regardless of the fund in which the loan is recorded, the government will record the cash coming in from the loan, and a "due to" the State Treasurer for an equal amount in the year in which the loan was received.

For FEMA Reimbursement Grant proceeds, the government will record a grant receivable from FEMA for any expenditure it believes will be reimbursed but keep in mind that reimbursement is not guaranteed. There likely will be some expenditures that FEMA will not cover. It might be wise to choose something less than 100% of the government's disaster recovery expenditures to record as a grant receivable. Receivables are recorded when all eligibility requirements have been met. These amounts can always be amended as more information becomes available.

In addition, ***in the governmental funds, the recognition of the grant revenue from FEMA must be deferred and reported as a deferred inflow of resources until such time that the amount is measurable and available***. Revenue recognition doesn't have to and likely will not occur all at once – the government can recognize amounts as it meets this two-pronged test.

Expenditures are recorded as obligated with the expectation that they will be paid from currently available resources.

Financial Reporting in the Enterprise Funds and Government-Wide Statements

There is no deferral of revenue recognition in the government-wide statements or in the enterprise fund statements which both follow an economic resources measurement focus and the accrual basis of accounting. However, the government must take care to record only the amount of grant receivables that it reasonably expects to collect, making some allowance for disallowed costs.

Expenses are recorded as obligations are incurred.

The following scenarios, related discussion, journal entries, and sample budget ordinances are to illustrate the various aspects and options of budgeting and accounting for the cash flow loans and the disaster recovery spending and reimbursement that local governments are experiencing. It is not intended to be all inclusive and it may not directly address the circumstances in every governmental entity in NC nor is it indicative of expected timing of reimbursements.

SCENARIO 1 – TOWN USES THE GENERAL FUND AND OTHER FUNDS TO ACCOUNT FOR FEMA REIMBURSEMENTS, CASH FLOW LOAN PROCEEDS, and DEQ EMERGENCY BRIDGE LOAN PROCEEDS; NO USE OF GRANT PROJECT FUND

The Town of Mountaineers was not spared from the Hurricane Helene disaster. It suffered an estimated total damage of $50 million. The damage was spread across roads, buildings, park facilities, and utility infrastructure. The town also had to deal with debris removal and its related costs. Here is a breakdown of the $50 million in estimated costs by FEMA category and the funds in which the appropriations are being reported:

$10.0 million	Debris removal	CAT A	General Fund
$2.0 million	Emergency protective measures	CAT B	General Fund
$0.5 million	Administrative costs	CAT Z	General Fund
$11.0 million	Roads	CAT C	General Capital Project
$4.0 million	Buildings	CAT E	General Capital Project
$2.0 million	Park facilities	CAT G	General Capital Project
$20.5 million	Utilities infrastructure	CAT F	Enterprise Capital Project
$50.0 million	Total		

The Town estimates that it will receive a total reimbursement from FEMA of $48.5 million spread out over the next several years, believing that $1.5 million of costs in the Enterprise Capital Project Fund will not be reimbursed by FEMA. Those costs and the repayment of the DEQ loan will be covered by the DEQ Emergency Bridge loan and a transfer from the Enterprise Operating Fund.

The Town opted to use the General Fund to account for its non-capital project disaster recovery expenditures and related FEMA Reimbursement Grant revenue. Capital items and related reimbursements are accounted for in the appropriate capital project fund.

The Town was awarded a cash flow loan from the NC Department of State Treasurer for $2.7 million. This loan was received on February 28, 2025. In the 25-26 fiscal year, the Town must make a $1 payment on this loan at a minimum.

The Town was awarded a DEQ Emergency Bridge Loan from DEQ-DWI for $100,000. It was received on March 31, 2025.

The following are the series of budgetary and GAAP accounting entries the Town will need to post to its accounting system based on the scenario above.

BUDGET ENTRIES – GENERAL FUND (Scenario 1)

Budget for Cash Flow Loan and Related Appropriations

Budget the cash flow loan proceeds

	APPROPRIATIONS		EST REVENUES	
	INCREASE	**DECREASE**	**INCREASE**	**DECREASE**
Disaster recovery expenditures	$2,700,000			
Cash flow note proceeds			$2,700,000	

Budget entry to recognize the receipt of the cash flow loan and expenditure of proceeds

Budget for Remaining Disaster Related Appropriations, Cash Flow Loan repayment, and Subsequent FEMA Reimbursement

In the General Fund, the Town would budget the remaining disaster related appropriations not being budgeted in capital projects funds, and any expected FEMA reimbursement for the period covered by the budget. For example, the Town incurred $12.5 million in disaster recovery expenditures in the General Fund in the current budget year. It does not reasonably expect to receive any reimbursement from FEMA until the subsequent budget year. For the current budget year, the Town will have to offset the disaster related appropriations with available fund balance or other available revenues. In the subsequent budget year, the Town would budget the FEMA reimbursement it expects to receive as revenue.

Budget the remaining disaster recovery costs expected to be expended this year and the required cash flow loan payment.

	APPROPRIATIONS		EST REVENUES	
	INCREASE	**DECREASE**	**INCREASE**	**DECREASE**
Disaster recovery expenditures	$9,800,000			
Cash flow note repayment to DST	$1			
Fund balance appropriated			$9,800,001	

BUDGET ENTRIES – CAPITAL PROJECTS FUNDS (Scenario 1)

In the Capital Project Fund budgets, (both the General and the Enterprise) the Town would include the disaster recovery appropriations as well as a revenue recognizing the expected receipt of FEMA Reimbursement Grant proceeds - $17 million for the General Capital Projects Fund and $19 million for the Enterprise Capital Projects Fund (Remember the Town is not expecting FEMA to reimburse $1.5 million of Enterprise Capital expenditures.) All FEMA reimbursements will be coming directly into the various capital project funds. The Town also budgeted the receipt of the DEQ Emergency Bridge Loan directly in the Enterprise Capital Projects Fund, expecting to use the funds for capital needs. If they will be used for operations they should be budgeted in the Enterprise Operating Fund. The repayment of the DEQ loan also is budgeted in the enterprise capital projects ordinance.

Budget the capital disaster recovery costs expected to be expended over the course of the project

General Capital Projects Fund

	APPROPRIATIONS		EST REVENUES	
	INCREASE	**DECREASE**	**INCREASE**	**DECREASE**
Disaster recovery expenditures	$17,000,000			
FEMA Reimbursement Grant proceeds			$17,000,000	

Enterprise Capital Projects Fund

	APPROPRIATIONS		EST REVENUES	
	INCREASE	**DECREASE**	**INCREASE**	**DECREASE**
Disaster recovery expenditures	$20,500,000			
Repayment of DEQ Emer Bridge Ln	$100,000			
FEMA Reimbursement Grant Proceeds			$19,000,000	
Transfer from Enterprise Operating Fund			$1,500,000	
DEQ Emergency Bridge Loan proceeds			$100,000	

To budget for expected capital expenditures as a result of damage from Helene and show the expected receipt of FEMA Reimbursement Grant proceeds. Recall that the Town expects that FEMA will not cover $1.5 million of costs in the Enterprise Capital Projects Fund so that amount will be covered by the DEQ Emergency Bridge Loan of $100,000 and a transfer from the Enterprise Operating Fund of $1.4 million.

FINANCIAL REPORTING: RECOGNITION OF REVENUE OF FEMA GRANTS AND CASH FLOW LOANS (Scenario 1)

The unfortunate reality for most local governments that sustained damage is that it will negatively impact the entity's financial statements as of June 30, 2025, and possibly beyond. The scope of the costs incurred combined with the lag in the receipt of FEMA grant funding will negatively affect your financial reporting until the inflows from the grant funds catch up with the outflows and obligations the entity has incurred.

GASB revenue recognition requirements will affect when and whether a government is allowed to record revenue for both the cash flow loans and FEMA grants on both modified and full accrual reporting; things will look a bit different from the budgetary accounting in a fund with a project ordinance. Receipt and liquidation of the loan are balance sheet items, while the disaster recovery expenditures and FEMA grant revenue flow through the operating statement. Both are still accounted for in the General Fund.

ACCOUNTING - GENERAL FUND AND GENERAL CAPITAL PROJECTS FUND - MODIFIED ACCRUAL REPORTING (Scenario 1)

Cash Flow Loan is Received:

	DEBIT	CREDIT
Record receipt of the cash flow loan when received		
Cash	$2,700,000	
Due to Department of State Treasurer – Cash Flow Loan		$2,700,000

To record the cash flow loan on the balance sheet

The remaining $9,700,000 of disaster recovery expenditures that are accounted for in the General Fund would be recorded like any other expenditures, with the offset most likely being accounts payable.

In the General Capital Projects Fund, expenditures are recorded as incurred just like any other capital expenditure.

FISCAL YEAR END: GOVERNMENTAL FUNDS, MODIFIED ACCRUAL PRESENTATION (Scenario 1)

There are several different circumstances that could be in play at June 30, 2025, and will likely be at least somewhat different for June 30, 2026, and future fiscal years. For illustrative purposes here we assume that the Town incurred qualified costs of $50,000,000 and has submitted its worksheets to FEMA totaling that amount but has not received any cash from FEMA as of **September 28, 2025, the end of the Town's 90-day availability period for financial reporting purposes.*** Of the $12,500,000 recorded in the General Fund, the Town paid for $8,000,000 of costs in cash (including the $2,700,000 from the cash flow loan) and has accounts payable outstanding for $4,500,000.

OVER THE COURSE OF THE YEAR RECORD EXPENDITURES INCURRED (Scenario 1)

	DEBIT	CREDIT
Disaster recovery expenditures	$12,500,000	
Due to Department of State Treasurer	$1	
Cash		$8,000,001
Accounts payable		$4,500,000

To record expenditures and recognize related outflows and/or payables and the required payment on the cash flow loan

AT THE CURRENT FISCAL YEAR END RECORD IN THE GENERAL FUND THE FEMA FUNDS THE TOWN HAS QUALIFIED FOR AND EXPECTED TO BE REIMBURSED FOR BUT NOT YET RECEIVED ($12,500,000 from the General Fund, $8,000,000 from the General Capital Projects Fund, and $4,000,000 from the Enterprise Capital Projects Fund) (Scenario 1)

Record AR from FEMA and defer the revenue due to lack of availability

Due from FEMA	$12,500,000	
Deferred Inflow of Resources		$12,500,000

To reflect FEMA grant as deferred inflow

In subsequent years, as the remaining expenditures are incurred, the General Fund will continue to record the Due From for the amount expended and expected to be reimbursed, with the offsetting entry to Deferred Inflows of Resources.

* Entities have the choice of using a 60 or 90 - day availability period for recognizing revenues in a governmental fund for everything except property taxes. For June 30 FYE, the 90 - day availability period ends on September 28th. The 60-day period ends on August 29.

GENERAL CAPITAL PROJECTS FUND (Scenario 1)

The Town has recorded its non-utilities related disaster recovery capital expenditures in its General Capital Projects Fund. Of the $17 million budgeted, $7,000,000 has been spent. None of it has been paid at year-end so it is all in accounts payable.

Capital outlay (detail out as needed)	$7,000,000	
Accounts payable		$7,000,000

to record the capital outlay expenditures and related payables

Remember that no FEMA reimbursement was received during the current fiscal year or in the 90 days after the fiscal year-end so no revenue can be recorded. The Town does expect to receive 100% of these costs in reimbursements so there will be a receivable and offsetting deferral recorded on the balance sheet for the General Capital Projects Fund.

Record AR from FEMA and defer the revenue due to lack of availability

Due from FEMA	$7,000,000	
Deferred Inflow of Resources		$7,000,000

To reflect FEMA grant as deferred inflow

ENTERPRISE CAPITAL PROJECTS FUND (Scenario 1)

The Town has recorded its utilities-related disaster recovery capital expenditures in its utilities capital project fund. Of the $20.5 million in expected expenditures, $6.0 million has been spent. Of that $6.0 million that has already been expended, $4.0 million has been disbursed, and the remaining $2.0 million is in accounts payable. The Town does not expect FEMA to reimburse the full $20.5 million in expenditures – it expects to receive $19 million in reimbursements. For illustrative purposes that difference of $1.5 million will be recognized in full in this first tranche of expenditures.

Record the receipt of the DEQ Emergency Bridge Loan

Cash	$100,000	
Due to DEQ		$100,000

To record receipt of DEQ Emergency Bridge Loan

Record expenditures accounted for in the Enterprise Capital Project Fund

Capital outlay expenditures	$6,000,000	
Cash		$4,000,000
Accounts payable		$2,000,000

to record the utilities capital project expenditures for the fiscal year

Record the A/R from FEMA in the Enterprise Fund and transfer in from Enterprise Operating Fund

Cash	$1,500,000	
Due from FEMA	$4,500,000	
Deferred Inflow of Resources		$4,500,000
Transfer in from Enterprise Operating Fund		$1,500,000

<u>IN A SUBSEQUENT FISCAL YEAR WHEN FEMA REIMBURSEMENT GRANTS COME INTO THE GENERAL FUND, RECORD (Scenario 1)</u>

When FEMA grants come in, record in the General Fund as received

Cash	$12,500,000	
Deferred Inflows of Resources	$12,500,000	
FEMA Reimbursement Grant revenue		$12,500,000
Due from FEMA		$12,500,000

To record receipt of FEMA funds

Note: It is not likely that all FEMA funds will come in at once or even all in the same fiscal year. We assumed that they did for illustrative purposes only.

When these governmental type funds are converted to full accrual for reporting at the government-wide level, availability is not a factor and the revenue from the expected FEMA reimbursements will be reflected.

<u>REPAY CASH FLOW LOAN AND RECORD IN THE GENERAL FUND (Scenario 1)</u>

Since the Town has now received its cash from FEMA it must repay the balance owed on the cash flow loan. (This example assumed the loan is paid off in year 2.)

Due to Department of State Treasurer – Cash Flow Loan	$2,699,999	
Cash		$2,699,999

To record repayment of cash flow loan to Department of State Treasurer

IN SUBSEQUENT FISCAL YEAR WHEN FEMA REIMBURSEMENT GRANTS COME INTO THE GENERAL CAPITAL PROJECTS FUND, RECORD (Scenario 1)

Cash	$7,000,000	
Deferred Inflows of Resources	$7,000,000	
FEMA Reimbursement Grant revenue		$7,000,000
Due from FEMA		$7,000,000

To record receipt of FEMA funds

Note: It is not likely that all FEMA funds will come in at once or even all in the same fiscal year. We assumed that they did for illustrative purposes only.

In subsequent years, as the expenditures are incurred, the Town would continue to record any amounts due from FEMA that are not yet measurable and available at fiscal year-end as deferred inflows of revenues. As those amounts do become available, the Town would recognize the revenue and eliminate the deferred inflows.

When these governmental type funds are converted to full accrual for reporting at the government-wide level, availability is not a factor and the revenue from the expected FEMA reimbursements will be reflected.

IN SUBSEQUENT FISCAL YEAR WHEN FEMA REIMBURSEMENT GRANTS COME INTO THE ENTERPRISE CAPITAL PROJECTS FUND, RECORD (Scenario 1)

Cash	$4,500,000	
Deferred Inflow of Resources	$4,500,000	
Due from FEMA		$4,500,000
FEMA Reimbursement Grant Revenue		$4,500,000

To record receipt of FEMA funds

Note: It is not likely that all FEMA funds will come in at once or even all in the same fiscal year. We assumed that they did for illustrative purposes only.

REPAYMENT OF DEQ EMERGENCY BRIDGE LOAN

Now that FEMA proceeds have been received, the Town must pay back the DEQ Emergency Bridge loan.

Due to DEQ	$100,000	
Cash		$100,000

To record repayment of DEQ Emergency Bridge Loan

SCENARIO 2 – TOWN USES A GRANT PROJECT FUND AND OTHER FUNDS TO ACCOUNT FOR FEMA REIMBURSEMENTS AND CASH FLOW LOAN PROCEEDS; NO USE OF GENERAL FUND

The Town of Mountaineers was not spared from the Hurricane Helene disaster. It suffered an estimated total damage of $50 million. The damage was spread across roads, buildings, park facilities, and utility infrastructure. The town also had to deal with debris removal and its related costs. Here is a breakdown of the $50 million in estimated costs by FEMA category and the funds in which the appropriations are being reported:

$10.0 million	Debris removal	CAT A	General Fund
$2.0 million	Emergency protective measures	CAT B	General Fund
$0.5 million	Administrative costs	CAT Z	General Fund
$11.0 million	Roads	CAT C	General Capital Project
$4.0 million	Buildings	CAT E	General Capital Project
$2.0 million	Park facilities	CAT G	General Capital Project
$20.5 million	Utilities infrastructure	CAT F	Enterprise Capital Project
$50.0 million	Total		

The Town estimates that it will receive a total reimbursement from FEMA of $48.5 million spread out over the next several years, believing that $1.5 million of costs in the Enterprise Capital Project Fund will not be reimbursed by FEMA. These costs and repayment of the DEQ loan will be covered by a transfer from the Enterprise Operating Fund and the DEQ Emergency Bridge Loan.

The Town has established a Grant Project Fund and adopted a Grant Project Ordinance accordingly, to account for its non-capital project disaster recovery expenditures and related FEMA Reimbursement Grant revenue. Capital items and related reimbursements are accounted for in the appropriate capital project fund.

The Town was awarded a cash flow loan from the NC Department of State Treasurer for $2.7 million. This loan was received on February 28, 2025. In the 25-26 fiscal year, the Town must make a $1 payment on this loan at a minimum.

The Town was awarded a DEQ Emergency Bridge Loan from DEQ-DWI for $100,000. It was received on March 31, 2025.

The following are the series of budgetary and GAAP accounting entries the Town will need to post to its accounting system based on the scenario above.

BUDGET ENTRIES – GRANT PROJECT FUND (Scenario 2)

Budget for Cash Flow Loan, expected FEMA Grant Proceeds and Related Appropriations

In the Grant Project Fund (GPF), the Town will budget the disaster related appropriations not being budgeted in capital projects funds and all expected related FEMA Reimbursement Grant revenue. Remember the Town cannot budget or expend funds for capital items in the Grant Project Fund.

The Town expects to incur $12.5 million in disaster recovery expenditures in the GPF so that will be budgeted as such. The related $12,500,000 in FEMA Reimbursement Grants that the Town expects to receive also will be budgeted in the GPF. Town also needs to budget for the Cash Flow Loan of $2,700,000. (The DEQ Emergency Bridge Loan will be budgeted in the Enterprise Capital Project Fund if it will be used for capital or in the Enterprise Operating Fund if it will be used for operations.)

Budget the expected disaster recovery costs to be expended over the life of the project as well as the cash flow loan proceeds and repayment

	APPROPRIATIONS		EST REVENUES	
	INCREASE	DECREASE	INCREASE	DECREASE
Disaster recovery expenditures	$12,500,000			
Repayment of cash flow loan	$2,700,000			
FEMA reimbursement grant			$12,500,000	
Cash flow loan proceeds			$2,700,000	

BUDGET ENTRIES – CAPITAL PROJECTS FUNDS (Scenario 2)

In the Capital Project Fund budgets, (both the General and the Enterprise) the Town would include the disaster recovery appropriations as well as a revenue recognizing the expected receipt of FEMA Reimbursement Grant proceeds - $17 million for the General Capital Projects Fund and $19 million for the Enterprise Capital Projects Fund. All FEMA reimbursements will be coming directly into the various capital project funds. The Town also budgeted the receipt of the DEQ Emergency Bridge Loan directly in the Enterprise Capital Projects Fund because it plans to spend these funds on capital related items. If the Town was planning to spend this money on operations, the loan proceeds and repayment would be budgeted in the Enterprise Operations Fund. The repayment of the DEQ loan is also budgeted in the enterprise capital projects ordinance.

Budget the capital disaster recovery costs expected to be expended over the course of the projects

General Capital Projects Fund

	APPROPRIATIONS		EST REVENUES	
	INCREASE	DECREASE	INCREASE	DECREASE
Disaster recovery expenditures	$17,000,000			
FEMA Reimbursement Grant proceeds			$17,000,000	

Enterprise Capital Projects Fund

	APPROPRIATIONS		EST REVENUES	
	INCREASE	DECREASE	INCREASE	DECREASE
Disaster recovery expenditures	$20,500,000			
Repayment of DEQ Emer Bridge Ln	$ 100,000			
FEMA Reimbursement Grant Proceeds			$19,000,000	
Transfer from Enterprise Operating Fund			$1,500,000	
DEQ Emergency Bridge Loan proceeds			$ 100,000	

To budget for expected capital expenditures as a result of damage from Helene and show the expected receipt of FEMA Reimbursement Grant proceeds and the repayment of the DEQ loan. Recall that the Town expects that FEMA will not cover $1.5 million of costs in the Enterprise Capital Projects Fund so that amount will be covered by a transfer from the Enterprise Operating Fund of $1.5 million.

FINANCIAL REPORTING: RECOGNITION OF REVENUE OF FEMA GRANTS AND CASH FLOW LOANS (Scenario 2)

The unfortunate reality for most local governments that sustained damage is that it will negatively impact the entity's financial statements as of June 30, 2025, and possibly beyond. The scope of the costs incurred combined with the lag in the receipt of FEMA grant funding will negatively affect your financial reporting until the inflows from the grant funds catch up with the outflows and obligations the entity has incurred.

GASB revenue recognition requirements will affect when and whether a government is allowed to record revenue for the Cash Flow Loans, the DEQ Emergency Bridge Loan, and FEMA grants on both modified and full accrual reporting; things will look a bit different from the budgetary accounting in a fund with a project ordinance. Receipt of proceeds and repayment of the loans are balance sheet items, while the disaster recovery expenditures and FEMA grant revenue flow through the operating statement.

Because the Grant Project Fund is accounted for on the modified accrual basis of accounting with a financial resources measurement focus, the same rules for revenue recognition will apply to the Grant Project Fund as applied to the General Fund. Revenues from the FEMA Reimbursement Grants will not be recognized until the amounts are measurable and available; they will be recorded as a deferred inflow of resources until they can be recognized as revenue.

ACCOUNTING – GRANT PROJECT FUND AND GENERAL CAPITAL PROJECTS FUND - MODIFIED ACCRUAL REPORTING (Scenario 2)

Cash Flow Loan is Received into the Grant Project Fund:

	DEBIT	CREDIT
Record receipt of the cash flow loan when received		
Cash	$2,700,000	
Due to Department of State Treasurer – Cash Flow Loan		$2,700,000

To record the cash flow loan on the balance sheet

The $12,500,000 of disaster recovery expenditures that are accounted for in the Grant Project Fund will be recorded like any other expenditures, with the initial offset most likely being accounts payable.

In the General Capital Projects Fund, expenditures are recorded as incurred just like any other capital expenditure.

FISCAL YEAR END: GOVERNMENTAL FUNDS, MODIFIED ACCRUAL PRESENTATION (Scenario 2)

There are several different circumstances that could be in play at June 30, 2025, and will likely be at least somewhat different for June 30, 2026 and future fiscal years. For illustrative purposes here we assume that the Town incurred qualified costs of $50,000,000 and has submitted its worksheets to FEMA totaling that amount but has not received any cash from FEMA as of **September 28, 2025, the end of the Town's 90-day availability period for financial reporting purposes.*** Of the $12,500,000 recorded in the Grant Project Fund, the Town paid for $8,000,000 of costs in cash (including the $2,700,000 from the Cash Flow Loan) and has accounts payable outstanding for $4,500,000.

* Entities have the choice of using a 60 or 90 - day availability period for recognizing revenues in a governmental fund for everything except property taxes. For June 30 FYE, the 90 - day availability period ends on September 28th. The 60-day period ends on August 29.

OVER THE COURSE OF THE FIRST YEAR RECORD EXPENDITURES INCURRED (Scenario 2)

	DEBIT	CREDIT
Disaster recovery expenditures	$12,500,000	
Cash Flow Loan Repayment$	1	
Cash		$8,000,001
Accounts payable		$4,500,000

To record expenditures and recognize related outflows and/or payables and the required $1 payment on the cash flow loan

AT THE CURRENT FISCAL YEAR END RECORD IN THE GRANT PROJECT FUND THE FEMA FUNDS THE TOWN HAS QUALIFIED FOR AND EXPECTED TO BE REIMBURSED FOR BUT NOT YET RECEIVED ($12,500,000 from the Grant Project Fund, $8,000,000 from the General Capital Projects Fund, and $4,000,000 from the Enterprise Capital Projects Fund) (Scenario 2)

Record AR from FEMA and defer the revenue due to lack of availability

	Debit	Credit
Due from FEMA	$12,500,000	
Deferred Inflow of Resources		$12,500,000

To reflect FEMA grant as deferred inflow

In subsequent years, as the remaining expenditures are incurred, the Grant Project Fund will continue to record the Due From for the amount expended and expected to be reimbursed, with the offsetting entry to Deferred Inflows of Resources.

GENERAL CAPITAL PROJECTS FUND (Scenario 2)

The Town has recorded its non-utilities related disaster recovery capital expenditures in its General Capital Projects Fund. Of the $17 million budgeted, $7,000,000 has been spent. None of it has been paid at year-end so it is all in accounts payable

	Debit	Credit
Capital outlay (detail out as needed)	$7,000,000	
Accounts payable		$7,000,000

to record the capital outlay expenditures and related payables

Remember that no FEMA reimbursement was received during the current fiscal year or in the 90 days after the fiscal year-end so no revenue can be recorded. The Town does expect to receive 100% of these costs in reimbursements so there will be a receivable and offsetting deferral recorded on the balance sheet for the General Capital Projects Fund.

Record AR from FEMA and defer the revenue due to lack of availability

	Debit	Credit
Due from FEMA	$7,000,000	
Deferred Inflow of Resources		$7,000,000

To reflect FEMA grant as deferred inflow

ENTERPRISE CAPITAL PROJECTS FUND (Scenario 2)

The Town has recorded its utilities-related disaster recovery capital expenditures in its utilities capital project fund. Of the $20.5 million in expected expenditures, $6.0 million has been spent. Of that $6.0 million that has already been expended, $4.0 million has been disbursed, and the remaining $2.0 million is in accounts payable. The Town does not expect FEMA to reimburse the full $20.5 million in expenditures – it expects to receive $19 million in reimbursements. For illustrative purposes that difference of $1.5 million will be recognized in full in this first tranche of expenditures.

Recognize receipt of DEQ Emergency Bridge Loan

Cash	$100,000	
Due to DEQ		$100,000

To record the receipt of the DEQ Emergency Bridge loan proceeds.

Next the Town will record its expenditures during the year

Capital outlay expenditures	$6,000,000	
Cash		$4,000,000
Accounts payable		$2,000,000

to record the utilities capital project expenditures/expenses for the fiscal year

Record the A/R from FEMA in the Enterprise Fund and transfer in from Enterprise Operating Fund

Cash	$1,500,000	
Due from FEMA	$4,500,000	
Deferred Inflow of Resources		$4,500,000
Transfer in from Enterprise Operating Fund		$1,500,000

IN A SUBSEQUENT FISCAL YEAR WHEN FEMA REIMBURSEMENT GRANTS COME INTO THE GRANT PROJECT FUND, RECORD (Scenario 2)

When FEMA grants come in, record in the Grant Project Fund as received

Cash	$12,500,000	
Deferred Inflows of Resources	$12,500,000	
FEMA Reimbursement Grant revenue		$12,500,000
Due from FEMA		$12,500,000

To record receipt of FEMA funds

Note: It is not likely that all FEMA funds will come in at once or even all in the same fiscal year. We assumed that they did for illustrative purposes only.

When these governmental type funds are converted to full accrual for reporting at the government-wide level, availability is not a factor and the revenue from the expected FEMA reimbursements will be reflected.

<u>REPAY BALANCE ON CASH FLOW LOAN AND RECORD IN THE GRANT PROJECT FUND (Scenario 2)</u>

Since the Town has now received its cash from FEMA it must repay the balance owed on the cash flow loan. (This example assumes the loan is paid off in year 2.)

Due to Department of State Treasurer – Cash Flow Loan	$2,699,999	
Cash		$2,699,999

To record repayment of cash flow loan to Department of State Treasurer

<u>IN SUBSEQUENT FISCAL YEARS WHEN FEMA REIMBURSEMENT GRANTS COME INTO THE GENERAL CAPITAL PROJECTS FUND, RECORD (Scenario 2)</u>

Cash	$7,000,000	
Deferred Inflows of Resources	$7,000,000	
FEMA Reimbursement Grant revenue		$7,000,000
Due from FEMA		$7,000,000

To record receipt of FEMA funds

Note: It is not likely that all FEMA funds will come in at once or even all in the same fiscal year. We assumed that they did for illustrative purposes only.

In subsequent years, as more expenditures are incurred, the Town would continue to record any amounts due from FEMA that are not yet measurable and available at fiscal year-end as deferred inflows of revenues. As those amounts do become available, the Town would recognize the revenue and eliminate the deferred inflows.

When these governmental type funds are converted to full accrual for reporting at the government-wide level, availability is not a factor and the revenue from the expected FEMA reimbursements will be reflected.

<u>IN SUBSEQUENT FISCAL YEARS WHEN FEMA REIMBURSEMENT GRANTS COME INTO THE ENTERPRISE CAPITAL PROJECTS FUND, RECORD (Scenario 2)</u>

Cash	$4,500,000	
Deferred Inflow of Resources	$4,500,000	
Due from FEMA		$4,500,000
FEMA Reimbursement Grant Revenue		$4,500,000

To record receipt of FEMA funds

Note: It is not likely that all FEMA funds will come in at once or even all in the same fiscal year. We assumed that they did for illustrative purposes only.

REPAYMENT OF DEQ EMERGENCY BRIDGE LOAN

Now that FEMA proceeds have been received, the Town must pay back the DEQ Emergency Bridge loan.

Due to DEQ	$100,000	
Cash		$100,000

To record repayment of DEQ Emergency Bridge Loan

	GENERAL FUND	GRANT PROJECT FUND	ENTERPRISE FUND
Impact of cash flow loan on total fund balance and fund balance available	Will be negatively impacted. FBA is a benchmark used across the State to measure fiscal health and it, along with total fund balance, will decrease by the amount of the cash flow loan because of the accounting treatment of the loan as a balance sheet transaction rather than as loan proceeds. Possibility of creating a deficit in the fund.	Will be negatively impacted but measure is not a benchmark used to evaluate fiscal health. Decrease in fund balance won't create a budgetary deficit because the fund is using a multi-year budget, but a GAAP deficit on the balance sheet is likely.	Would reduce fund balance available for appropriation in the enterprise fund but that only affects the potential appropriation in the next fiscal year's budget. Not likely to create negative net assets because the Enterprise Fund is reported using the economic resources measurement focus and full accrual basis of accounting.
Budgeting and recognizing revenue from FEMA reimbursements	Will annually budget the FEMA reimbursements you expect to receive in a given year. Amend as expectations of amounts change and/or as reimbursements are pushed from one fiscal year into the next. Recognize revenue that will be reported on the income statement only when it is measurable and available. Will sit in Deferred Inflow of Resources on the balance sheet until that time.	Will budget the full amount of FEMA reimbursements you expect to receive over the life of the disaster recovery project. Amend only as expectations of amounts change. Recognize revenue that will be reported on the income statement only when it is measurable and available. Will sit in Deferred Inflow of Resources on the balance sheet until that time.	Could potentially impact annual operating budget if expecting FEMA reimbursement for operating expenditures (must consider availability on the budgetary basis). The same issues present in the General Fund also would apply for the Enterprise operating fund. For capital expenditures the budgetary approach is similar to that for the Grant Project Fund, with everything covered in a multi-year budget. Revenue recognition on a GAAP basis is not impacted since under full accrual accounting the revenue that is reasonably expected to be received is recognized when measurable and earned, with no consideration given to availability.
Reporting of capital outlay	Capital outlay can be reported in the General Fund. Unit has the option of reporting appropriate transactions in the General Capital Projects fund(s) as applicable. Unit will want to record capital expenditures related to enterprise or other proprietary funds in the appropriate enterprise capital project fund. Remember to budget these funds accordingly.	Capital outlay **cannot** be reported in the GPF. Capital expenditures must be moved to the appropriate capital project fund(s). Remember to adjust the budget.	Can report capital outlay in an enterprise capital outlay fund. For budgetary purposes this is a multi-year fund so all expected revenues and appropriations are shown. For financial reporting purposes, the capital outlay expenditures convert to capital assets (construction in progress until completed), with no impact on the balance sheet other than depreciation of those assets placed in service in any given fiscal year.

Note 1:

Damage to government assets may be considered to be an asset impairment under the provisions of GASB Statement No. 42*, Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*. Asset impairments from Helene are most likely to fall into the category of physical damage which will be measured using a restoration cost approach. The mechanics of calculating the asset impairment are beyond the scope of this memo, but they can be found in GASB Statement No. 42.

FEMA grants fall into the category of voluntary nonexchange transactions. Revenues are recognized when all eligibility requirements have been met with the added requirement in governmental funds that FEMA reimbursements also must be received within a government's availability period. In NC, our governments use either 60 or 90 days as the availability period. (This is a policy decision made by each government and should only be changed after very careful consideration and consultation with your auditor.)

Asset impairments and the related FEMA reimbursements are considered to be separate events and should not be netted. The accounting is different from damage to a government's assets in an event covered by an insurance contract that was in place before the impairment event. Insurance recoveries are netted with the associated impairment losses. Governments may need to account for both of these types of transactions in the aftermath of Helene and will need to remember that the accounting for insured losses and FEMA recoveries is different.