

2026 Municipal Law Seminar

WORKSHOP B

Accounting Issues

DISCUSSION SUMMARY

(Prepared For Informational and Training Purposes Only)

This summary of the informal discussion presented at Workshop B is provided for educational and training purposes. It does not constitute legal advice or represent Department of Revenue opinion or policy, except to the extent it reflects statements contained in a public written statement of the Department of Revenue.

1. The following staff walk into your office: the executive officer of the municipal light plant, the chief of the fire department and school superintendent. All have bills they would like you to prepay. The municipal light plant would like to prepay for make-ready work for the new broadband infrastructure project, the fire department would like to prepay for a new truck, and the school would like you to prepay for a 10-year curriculum software contract. Assume there is sufficient appropriation for each request.

- a. Are municipalities allowed to prepay for goods and services?

Generally, no. Under G.L. c. 41, § 56, all boards, committees, department heads and officers authorized to expend money must, at least monthly, approve and transmit to the accounting officer all bills and payrolls that are chargeable to the appropriations over which they have spending authority. Approval for such expenditures is given only after a determination that the charges are correct and the goods, materials or services were ordered and actually received. G.L. c. 41, § 56 provides that payment can be made only after goods have been delivered or services rendered.

- b. Which, if any, of the above requested payments can be made?

Municipal Light Plant Broadband

Presently there is no authority to prepay for this service. However, there is a proposal to change the law to allow prepay for make ready work related to utilities. Said proposal, contained in the so-called Economic Development Bill, would add the following exception to G.L. c. 41, § 56: “(iii) the payment of estimates issued by utilities for make-ready work to facilitate access to utility poles, conduits, ducts or rights-of way related to broadband infrastructure projects.”

Fire Truck

DLS has opined that a progress payment may be made toward the manufacturing and customization of a fire truck as title to and delivery of what is being paid for are taken, as discrete segments of the process are completed. More specifically, we have advised that a partial payment can be made for the

acquisition of title to the chassis of a fire truck before the fire truck is finished and final delivery is taken.

School Software Contract

Where there is a multiyear contract for school related software, a municipality would be able to make this payment pursuant to an exception to the rule against prepayments contained in G.L. c. 41, § 56. In this case, there would be a sufficient appropriation; it is being paid in the fiscal year for which it pertains and, seemingly, the intent of the change to the rule against prepayment was to allow for multiyear agreements such as this one. This exception only applies to school related software related to curriculum.

[G.L. c. 41, § 56](#)
[BUL-2022-8](#)

2. Your FY2026 snow and ice deficit is enormous! Costs to remove snow and ice are up and the winter was not friendly. There is no room to otherwise provide for the deficit using available funds from FY2026. Now you are hearing about the Commonwealth providing Winter Recovery Assistance Program (WRAP) funds to help cities and towns with these costs.

- a. Can you amortize the deficit instead of having to raise it in one fiscal year? If so, how?

Yes. Chapter 101 of the Acts of 2026 authorizes cities and towns to amortize FY2026 snow and ice budget deficits over the next three fiscal years, in equal installments or more rapidly. The selectboard, city council, with the mayor's approval when required by law, or the town council must adopt a deficit amortization schedule before setting the municipality's FY2027 tax rate. If a municipality chooses not to amortize any FY2026 snow and ice deficit, that deficit must be raised in full on the FY2027 tax rate recap or otherwise funded prior to setting the FY2027 tax rate.

- b. How do you account for the WRAP funds and how can they be used?

If you are going to use WRAP to apply to your deficit, then you can transfer some of the deficit, equal to the amount of WRAP reimbursement, into a special revenue fund. Then, once it comes in it will be applied to the deficit and offset. If any deficit remains thereafter it will need to be raised. Any deficit not transferred to the special revenue fund can be amortized as described above.

If you have already used available funds to cover the snow and ice deficit, then you can: 1) Do nothing and let WRAP fall to free cash 2) If you used free cash to cover the deficit, you can put WRAP into a special revenue fund and appropriate the WRAP funds for any lawful purpose prior to the end of FY2027 3) If you used stabilization, return WRAP funds to said stabilization without further appropriation OR 4) If you do not offset FY2026 snow and ice deficit, you may use the WRAP funds for any purpose approved by MassDOT WRAP officials and account for such expenditures as they would Chapter 90 funds.

3. Your community has created a new Energy and Sustainability Committee. The Committee is very active and looking to make major strides towards reducing the community's emissions. The Committee funds a study that says that the majority of the emissions are coming from outdated building equipment and infrastructure in the community's residential and commercial sectors. The Committee would like to incentivize the private sector to upgrade the same with energy-efficient capital projects.
 - a. The Committee has asked you if the community can lend the residents and businesses money to make these renovations?

In short, yes, but only under the criteria established in G.L. c. 44, § 53E3/4. This statute allows cities and towns to establish an Energy Revolving Loan Fund to borrow funds to provide loans to owners of privately held real property in the city or town for energy conservation and renewable energy projects on their private property.

- b. If so, how? If not, why not?

The Energy Revolving Loan Fund must be established by ordinance or bylaw. The ordinance or bylaw must designate an administrator for the Fund and may provide for rules, regulations and procedures for administration of the Fund and eligibility for loans that the city or town considers necessary or proper. The intent of the statute is to "prioritize energy efficiency as the first step toward reducing greenhouse gas emissions associated with buildings." As such, cities and towns have significant latitude in providing loans that meet this standard. The city or town must enter into an agreement with the property owner in order to give the property owner a qualifying loan. A notice of the agreement must be recorded as a betterment.

- c. What other ways could the community make investments in the private market in their community?

It may be possible through special legislation (or if permitted pursuant to a specific general law). Article 88 of the Amendments to the Massachusetts Constitution provides that "The industrial development of cities and towns is a public function and the commonwealth and the cities and towns therein may provide for the same in such manner as the general court may determine." This means that the legislature could authorize a program for a city or town to give loans or grants to businesses for so-called industrial development. Similar special acts

have allowed municipalities to create an economic development funding program and a special revenue fund to fund loans and grants to private individuals and businesses for use on private property. But a special act is required to satisfy Amendment Article 88 of the Massachusetts Constitution. The SJC has indicated that “industrial development” should be broadly construed to include businesses other than manufacturing companies.

[G.L. c. 44, § 53E3/4](#)
[IGR 2026-10](#)

4. June 15th comes quick this year and every department is trying to spend all of their appropriations before the end of the fiscal year. With that, you have a host of folks asking you to encumber funds from this fiscal year for expenses that will be made after July 1 in the next fiscal year. Assume that there exists a sufficient appropriation in each of the following.

- a. The DPW has a quote in-hand for some high-grade street salt. Is the quote enough to encumber the funds?

No. Encumbrances should not be based merely on a department's planned or intended expenditures. No encumbrance is tenable unless another party had acquired enforceable rights to payment under a municipal contract. A quote is not a contract.

- b. What if there is a purchase order?

Yes. The amount of an outstanding purchase order that has been placed with a vendor by June 30 should be encumbered.

- c. Does it make a difference that school district spent less than the minimum amount it is required to spend to comply with its Education Reform spending obligation?

Yes. Under G.L. c. 70, § 11, if a school district spends less than the minimum amount it is required to spend to comply with its Education Reform spending obligation, any unspent balance of the school appropriation up to the amount necessary to bring the school spending up to its Education Reform target is automatically encumbered, even in the absence of any binding contract as of June 30. Therefore, to the extent that all or part of the purchase had to be spent to meet the school department's mandated net school spending, it is encumbered.

- d. The school committee offer an employee a \$4000 settlement pursuant to a grievance arising out of an employment termination in earlier in June. The

employee isn't expected to accept the settlement until July. Can this amount be encumbered?

No. It would be improper to encumber from this fiscal year to pay a settlement in anticipation of any contractual or other legal obligation to pay.

- e. Having had enough of these questions, you put in a rule that no department is allowed to bring forward purchase orders after June 15th. Is this permissible?

No. Such a rule not only impinges on schools' fiscal autonomy, but by cutting off departments' spending from the current appropriation before the end of the fiscal year, it also raises difficult legal and administrative issues for other departmental appropriations. There is also no statutory basis for the arbitrary choice of a June 15th cut-off date.

- f. The school department also has a bill for an cleaning service that they renew on an annual basis. 6 months of the cleaning service were in this fiscal year, and the next six months will be in the next fiscal year. Can they encumber the amounts for the payments that will occur in the next fiscal year right now?

Yes. While we do not believe that the cost of a school department contract for services, which by the contract's very terms are to be performed entirely in a succeeding fiscal year, can be charged against the current fiscal year's appropriation, if some part of the services are to be performed in the current year, then we think the entire cost of the contract, including the part related to the portion of the contract to be performed in the following year, may be encumbered against the current year's appropriation. However, in these cases, the department may not charge more than one year's (12 months) worth of goods or services to any particular year's budget.

However, we would further note that certain kinds of recurring services are provided year after year, sometimes without written contracts or purchase orders. Typical cases are utility services, dues, and insurance. In such cases, payment due dates may fall in one fiscal year for services to be provided largely in the following fiscal year. The essential point about such recurring services is that one year's worth of charges should be paid for from each year's budget. For example, municipal departments - including schools - should not be paying thirteen months' worth of utility bills in years when they have budget surpluses, nor deferring part of such costs to the following year by paying only eleven months' worth of bills when they have tight budgets.

[G.L. c. 44, § 31](#)

[G.L. c. 44, § 56](#)

[G.L. c. 44, § 68](#)

5. Your town has 3 full-time employees in your inspections department, all making \$50,000 a year. The salary for these employees is set by bylaw at town meeting.
 - a. One of the inspectors resigns in August. On December 7, town meeting would like to use the remaining amount of their \$50,000 salary to hire an employee of a different department. However, you have made the argument that this money cannot be used as an available fund because it was already encumbered for the salary for this position at the beginning of the fiscal year. Are you correct?

In short, yes. Normally the full amount of the salary line item account would be considered encumbered at the beginning of the fiscal year, assuming the continued service of the individual members. See *McHenry v. Lawrence*, 295 Mass. 119 (1936). In this case one of the Inspectors have resigned and the position has not been filled by means of a temporary appointment. By December 7, salary amounts attributable to September, October, November and December 1-7 would have been unencumbered, but it cannot be assumed that the third inspector position would remain vacant for the remainder of the fiscal year.

McHenry v. Lawrence, 295 Mass. 119 (1936)

6. Your City has a recreational services revolving fund established under GL c. 44, § 53E1/2. The mayor sought city council approval for a transfer of part of the revolving fund balance to pay for a shortfall in an appropriation for the skateboard park account, which was for the construction of the skateboard facility.
 - a. Can the City transfer the money in this way?

Irrespective of whether costs of the skateboard park were within the scope of the recreational services revolving fund, we believe that the mayor and council can appropriate an unencumbered balance in a revolving fund established under §53E1/2 for any lawful purpose. We think the restrictions on the expenditure purposes of the fund established by the vote to create it are binding on the department that has charge of the fund, but not on the municipal appropriating authority (in this case, the mayor and council acting together). In the absence of the appropriating body's vote to create the fund, the fund's receipts would be general fund revenues that could be appropriated for any municipal purpose. If the fund were not renewed, any balance would close out to the general fund at the end of the fiscal year, and become part of the city's free cash. We see no basis in the statutory language of §53E1/2 itself or the scheme of municipal finance generally why the appropriating authority should not be able to revoke the

spending authority delegated to a department by the creation of a revolving fund under that section.

[G.L. c. 44, § 53E1/2](#)

7. Your Selectboard entered into a multi-year contract with the town administrator beginning in FY2026. The contract included a provision to pay her \$172,100 for FY2026, 3% more than she was to receive in FY2025. The contract further provides that in order to receive the increase in salary for, the town administrator has to receive a satisfactory review from the Selectboard, which review is to be completed by June 30. The town appropriated the full FY2026 salary amount of \$172,100, but paid only the FY2025 salary amount in FY2026, pending an evaluation review by the selectboard. The accountant encumbered the salary increase at the end of FY2026 pending the outcome of the review. However, the review was not completed until July 20. The Town Administrator was then paid the FY2026 increase in a lump sum.
 - a. One of the selectboard appears to have objected to the encumbrance of the payment of the increase. Are they correct or are you?

We think the administrator's FY2026 compensation increase was properly encumbered at the end of FY2026 as a contingent liability of the town, and payment of the increase from that encumbrance was proper. The town had a potential obligation under the contract and the full salary, including the increase, was appropriated for FY2026. The fact that the evaluation/review was not performed in a timely manner did not effect that or make the ultimate payment a retroactive increase.

[G.L. c. 44, § 31](#)

[G.L. c. 44, § 56](#)

[G.L. c. 44, § 68](#)

8. This year, June 28th, 29th, and 30th fall on Monday, Tuesday, and Wednesday; July 1st and 2nd fall on Thursday and Friday.
 - a. How do you use an encumbrance to make the proper payment across fiscal years?

The best way to deal with the issue of different numbers of paydays in different fiscal years is to encumber the salary appropriation of the prior fiscal year for the number of days' pay earned at the end of that year, but not yet paid to the employees. That encumbered amount is then used together with part of the appropriation of the new fiscal year proportional to the number of workdays in the pay period that were in the new fiscal year.

For example, June 28th, 29th, and 30th in 2010 fall on Monday, Tuesday, and Wednesday; July 1st and 2nd fall on Thursday and Friday. Three days' pay for that week would be encumbered against and charged to that budget, and two days' pay would be charged to the next fiscal year budget.

[G.L. c. 44, § 56](#)

9. If monies were included in departmental salary items to cover expected raises from collective bargaining agreements during the year and the year ends without agreements, may the funds be encumbered until the contracts are settled?

Ideally the contracts should be ratified by the June 30th to encumber the funds. However, we have informally suggested that if the employer and employee bargaining representatives have agreed to contract terms by June 30, the funds may be encumbered to allow a ratification vote by the union on or before July 15, when the determination of year end obligations must be made. If no such ratification vote is made by that date, the encumbrance would not remain. If ratified, the encumbrance would continue until payment is made.

10. A local accounting official has noted that it has been their understanding that goods should be received by June 30 in order to encumber funds from that fiscal year budget. If a purchase order is issued on June 30, but goods are received within a week, would that be an appropriate encumbrance?

There is no specific statute authorizing encumbrances of funds. It is an accounting mechanism that is used to ensure the payment of binding contractual obligations arising during a particular fiscal year. Generally, funds need to be encumbered (set aside) by the accountant upon notice that a binding contract has been executed based on an

available appropriation. What constitutes a binding contract with respect to the purchase of goods may vary based on any town by-law requirements, but generally speaking, a written or verbal agreement for the purchase of items with a vendor will be conditionally binding upon the municipality when a purchase order is communicated to the vendor with the responsibility of the vendor to provide the items within some mutually agreed reasonable period of time. In some circumstances the department ordering the goods might be able to cancel the order without penalty, or the vendor might cancel the order because the goods cannot be delivered, at which time the contract may no longer be binding on the parties. However, if no action has been taken to cancel the order, the vendor will be relying on the agreement to ensure payment when the goods are delivered, and the town will be relying on the vendor to take all steps necessary to deliver the goods. The encumbrance ensures that funds have been segregated to pay the bill for the goods when they are delivered and are no longer an available appropriation for another contract.

There is no specific requirement in the general laws that goods must be received by June 30 in order for the town to charge the purchase price to the fiscal year ending on that date. While G.L. c. 44, § 56 provides that the fiscal year of all towns in the commonwealth shall be July 1 to June 30, and that all returns made to the director of accounts shall show the financial condition of the town as of June 30, the statute also allows the treasurer until July 15 to enter on the treasurer's books all items for payment of bills incurred and salaries earned during the previous fiscal year, and expenditures on those bills shall be deemed to be as of June 30. We have generally concluded that this statute provides that the towns books are to be closed by July 15th, for the period ending June 30 preceding. However, that does not mean that all deliveries have to have been received by July 15 for the purchase price of the goods delivered to be charged to the prior fiscal year budget. Encumbrances allow the funds to remain open indefinitely until the goods are delivered, the bills come in and are paid, or it is determined that the goods will not be delivered or the contract has been cancelled.

Thus, as long as the purchase orders were clearly made on or before June 30, and the town has no by-law requiring delivery by June 30, July 15 or some other later date for the purchase price to be paid from the preceding fiscal year budget, you should encumber the funds necessary to pay the bills upon subsequent delivery of the goods, and they should not be released for payment or to the general fund until the goods have been delivered or the contract for the goods has otherwise been properly canceled.

[G.L. c. 44, § 56](#)

11. Which of the following are or are not proper for departmental revolving fund treatment under G.L. c. 44, § 53E1/2?

Community Choice Aggregation Adder Fees

No. Operational Adder Fees are a general receipt of the municipality and, therefore, would belong to the General Fund of the municipality. However, the municipality could vote to dedicate the same to a Stabilization Fund, per G.L. c. 40, § 5B.

[Ask DLS: Community Choice Aggregation Adder Fees](#)

Electric Vehicle Charging Stations

Yes, to an extent. If the receipts are used for the upkeep and costs of the electric charging station, then it would seem that department revolving fund treatment would be appropriate. In such a case, the activity would be self-supporting, there is a direct connection or nexus between the fee and the activity.

Fundraisers (sale of goods, tickets, concessions, promotional items)

No. A departmental revolving fund is meant to aggregate fees charged to all participants or customers of a program or activity so the municipality can pay on-going operating expenses of that program or activity.

School Bus Transportation Fees for Families

Potentially yes – as long as the funds going in and coming out are for support of the program, such as maintenance of the schools' busses, gas, etc.

Reimbursements/Grants from student's subsidized tuition

No. Reimbursements would be credited to the general fund. Grants given for the same purpose must be accounted for separately under G.L. c. 44, § 53A and some of the program expenses can then be charged against the grant account, offsetting some obligations which would otherwise be borne by the revolving fund.

Police Details for Athletic Events from Athletic Revolving Fund

No, it wouldn't be appropriate for a police detail to be paid from the Athletic Revolving Fund. A police detail does not support the athletic program itself.

Fines for lost library books

Yes as long as it is for the specific purpose of being able to replace books rather than supplementing the general operating budget of the library.

Inspectional Services for a new development

Yes. While this is seemingly a government function rather than genuine program or activity, we have noted in the past that this is a proper use for a revolving fund as it is relatively unpredictable and the fund traditionally has money coming in to be spent out in the same amount.

Council on Aging Transportation Costs

Yes. Examples of appropriate use of funds are on expenses such as drivers, cell phones, vehicle gas and maintenance, and accessibility equipment for the vehicles.

Beach Sticker Fees

Yes, these fees would be appropriate in a Beach Revolving Fund. Examples of appropriate use of funds are on expenses such as maintenance for the parking area and salaries for lifeguards.

Generally, the departmental revolving fund is intended for use in connection with ongoing (or seasonal) departmental programs or activities offered to the public on a discretionary basis. In essence, the community would like to offer a program or activity as an amenity but will only do so if it is self-supporting or the cost can be significantly defrayed, i.e., can be paid for by the users. The fee that is charged to users is received specifically to fund the program or activity. These programs or activities have expenses that typically fluctuate with demand, but they can usually be easily segregated from other departmental expenses and paid for with supporting revenues received and on hand during the fiscal year. In other words, there is a match between specific program expenses and revenues attributable to a fiscal year and a direct connection or nexus between the fee and the program or activity. Further, a revolving fund is typically used because the program or activity is often difficult to budget for in the ordinary manner because the extent of the expenditures depends on the demand of the program or activity. Therefore, while the statute is intended to give communities flexibility and allow them to reserve what would otherwise be general revenues to particular purposes and spend them without appropriation, it is not necessarily a vehicle to dedicate every estimated receipt that comes into the community.

12. In which of the following scenarios can you segregate the receipt into a special fund of some sort? If you can, name the fund.

Town receipt for selling commemorative items at 300th anniversary celebration

Yes, this is allowed under G.L. c. 44, § 53I (Anniversary and Special Event Celebration).

Accrued sick and vacation time for a part-time recreation employee

No, this is not allowed under G.L. c. 44, § 53D (Parks and Recreation). The statute does not contemplate the ability to pay remaining sick and vacation hours and does not consider part time staff getting these benefits.

Part-time recreational employee salary

Yes, the payment of part-time salaries is allowed under G.L. c. 44, § 53D (Parks and Recreation).

Out of town police officer performs paid detail for utility work

Yes, if it is for the benefit of the third party, rather than the municipality, it can be paid under G.L. c. 44, § 53C (Paid Police Detail Revolving Fund)

Wetland fines issued by the Conservation Commission

No, this is not allowed under G.L. c. 131, § 40 (Wetland Protection) because revenues derived from locally-assessed fines are general fund revenues, in the absence of contrary statutory authority.

Receipts from electrical savings attributable to a solar net metering program

No, as discussed previously, there are no special fund has been adopted to capture the amounts rebated for net metering credits.

Funds paid by a utility to secure performance obligations to fix a roadway after it completes its job

Yes, under G.L. c. 44, § 53G1/2 (Performance Surety Deposits), there is a special revenue fund that does allow for the placement of funds into a special revenue account for improvements to public roadways as a result of construction projects.

Injury leave compensation for firefighters

Yes, under G.L. c. 41 § 111F & § 100 (Special Injury Leave Indemnity Fund). Pursuant to G.L. c. 41, § 111F, a municipality is obligated to provide leave without loss of pay to police officers and firefighters injured on duty for the period of such incapacity. In addition, G.L. c. 41, § 100 provides that a city or town shall pay all reasonable medical and related expenses to such injured police officers and firefighters.

The general rule about accounting for money received by a city, town or district officer or department is that all money received or collected by a city, town or district from any source is credited to its general fund and can only be spent after appropriation unless a general or special law provides for an exception and different treatment, i.e., a general or special law expressly reserves the revenue stream for expenditure for a particular purpose or allows expenditure by a municipal or district department or officer without appropriation. G.L. c. 44, § 53.

13. Your City's Mayor submitted their budget to the City Council in the proper timeframe and within the amount of time the Council has to act on the budget they appropriated 0 dollars across each line item.

- a. Does the so-called 1/12 budget go automatically into effect if an amended budget proposal is not passed?

If the city does not have an operating budget for the fiscal year on July 1 due to circumstances beyond its control, the mayor may submit a "continuing appropriation budget ... on a month to month basis for a period not to exceed three months." G.L. c. 44, § 32. However, the statute is silent as it relates to when the Mayor must submit the continuing appropriation budget. As such, if the submission is after the start of the new fiscal year it seems the so-called 1/12th budget would start before said submission. This seems consistent with the statute's intent related to continuity of government operations.

- b. When does the Mayor have to submit the so-called 1/12 budget to the City Council for consideration? Can the City Council reduce or reject it?

Given that no time frame is provided in G.L. c. 44, § 32 for the city council to act on a continuing appropriation budget, together with the necessity of a city having budget authority to incur expenses beginning July 1, it is our opinion that once submitted, a continuing appropriation budget is effective unless and until the city council votes to reject or reduce any or all amounts within it.