



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

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Commissioner of Revenue

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To: City Auditors, Town and Special Purpose District Accountants
From: Deborah A. Wagner, Director of Accounts
Date: July, 2022

This letter sets forth the requirements for certification of General Fund free cash, certification of enterprise fund retained earnings, submission of required Division of Local Services (DLS) reports, and certain other related matters.

For jurisdictions required to submit audited financial statements prior to free cash certification, if the independent auditor's opinion is adverse or disclaimed, the certification of free cash is at the discretion of the Director of the Bureau of Accounts (BOA).

For all of the forms listed below, please use the forms found on our Gateway Balance Sheet or District Balance Sheet landing page, as they may have changed from the prior year.

Cities and towns that have COVID-19 expenses charged to Coronavirus Relief Fund – Municipal Program (CvRF-MP) that have been deemed ineligible upon audit by the Executive Office for Administration and Finance's (A&F) Federal Funds Office (FFO) will not be mandated to raise on the FY2023 Tax Rate Recap (Recap) or otherwise fund such expenses. Please refer to [Bulletin 2022-3](#). These deficits will not be reductions to the free cash calculation.

Deficits in FEMA and CvRF-MP special revenue funds on the 6/30/2022 balance sheet will not have to be raised on the 2023 tax rate recap form or otherwise provided for. These deficits will need to be provided for at a later date. Again, these deficits will not result in a reduction to the free cash calculation

For information regarding [American Rescue Plan Act \(ARPA \)](#) funds, including the application for NEU second tranche payments, please go to the DLS webpage. On June 24, DLS issued a DLS Alert regarding the ARPA NEU second tranche payments. The US Treasury has issued a [Final Rule FAQ](#). For accounting guidance, please refer to [Bulletin 2021-6](#).

Regarding expected FEMA/MEMA reimbursements not related to the COVID-19 emergency, DLS has been in touch with MEMA and many disbursements have been made. Please plan to provide for outstanding deficits in those accounts if final reimbursements have been received.

Balance Sheet - Form Submission Requirements

For FY2022 reporting, cities, towns, and districts that submit their balance sheet for free cash are required to submit the following:

- The Excel standardized balance sheet template that contains the following worksheets (except cities and towns using the STAT accounting method)

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- i. Combined balance sheet for all funds and account groups
- ii. Detailed fund balances for all funds
- iii. Detail for Account groups
- iv. Combining statements
- v. Detailed analysis of undesignated fund balance/surplus revenue

- Balance Sheet Checklist (see Attachment A for further information)
- Cash Reconciliation Report
- Outstanding Receivables Report
- Snow and Ice Data Sheet
- Statement of Indebtedness
- Treasurer’s year-end report
- Closed system generated trial balance printout for the general fund
- Closed system generated detail transaction report of the undesignated fund balance account

All of these required forms must be in “form submit” status before the user will be allowed to submit the balance sheet submission form.

NEW – In an effort to better prioritize balance sheet review, communities will be required to either enter the date of a scheduled meeting of the legislative body at which there may be an appropriation from certified free cash or retained earnings or, check the box indicating that no such meeting is scheduled. If a meeting date is entered, it must be the date of the meeting of the legislative body at which the appropriation of free cash or retained earnings would take place, and not an earlier meeting of another body.

All procedures necessary to properly close accounting records should be completed. Pre-closing trial balances will not be accepted. Only balance sheets that have been closed as of June 30, 2022 will be accepted for certification of free cash.

All system generated trial balances and combined balance sheets must be presented in UMAS form. GAAP presentations of those items will not be accepted, delaying the free cash certification process.

Balance Sheet Presentation

- Do not include enterprise fund capital projects, including borrowing proceeds in the enterprise fund. These projects and the related borrowings should be shown in the capital project fund to avoid any impact on the retained earnings calculation and delay of free cash certification.
- Reservations of fund balances in the enterprise fund, other than retained earnings, may only be for purposes in accordance with the Enterprise Fund Manual, [IGR 2021-11](#).
- For each separate enterprise fund, the transfer of Enterprise Fund receipts to the General Fund for indirect costs cannot exceed the amount reported on Schedule A-2 Enterprise Funds, part IIB Total costs appropriated in general fund.
- If committed before July 1, the FY2023 property tax commitment is not recorded until July 1. Cash received before July 1 toward that commitment is recorded as FY2022 deferred revenue. See illustrative journal entries in Attachment B.

- Invested funds must be reported at fair market value as of June 30.
- Incurred but Not Reported (IBNR) claims of a self-insured health care trust fund must be accrued and reported on the balance sheet. A June 30, 2022 deficit in this fund is a reduction to free cash and must be raised in the FY2023 tax rate, unless otherwise funded before then.
- Any balance as of June 30 in the State Special Education Reimbursement Fund (Circuit Breaker) can be no greater than DESE's FY2022 reimbursement, not including extraordinary assistance or funds obligated by the school committee for FY2023 purposes. Any fund balance in excess of the allowable balance must close to the General Fund on June 30.
- Massachusetts School Building Authority (MSBA) lump-sum payments may require reservation and amortization. Please see [IGR No. 08-102, Guidelines for the Application of School Building Assistance Grants](#).
- Treasurers of cities, towns and districts that have authorized debt may use an advance from available unrestricted funds to pay expenses for the projects or purposes for which the debt will be issued. G.L. c. 44, § 20A. Advances must be repaid during the same fiscal year and there are some restrictions. See Section VII, [IGR No. 22-02, Borrowing](#), for an explanation of advance procedures and restrictions.

Debt authorized for jurisdictions required by special acts to obtain approval from the Commissioner of Revenue must first receive local approval and then the Commissioner's approval before advances and expenditure of funds can occur.

NEW - For treatment in the calculation of free cash, capital project deficits remaining as of June 30 will continue to be a reduction to the free cash calculation, unless borrowing to cover the deficit was completed between July 1 and September 30. BOA has added an additional column on the capital project detail tab to report such borrowings. See Attachment C. These borrowings should not appear on the 6/30/2022 balance sheet. If such a borrowing was issued, free cash will not be reduced. Also, if a community borrowed between September 30 and March 31 to cover a capital project deficit that reduced free cash, the community may request a free cash update.

- Community Preservation Fund balances reported on the June 30 balance sheet must match balances reported on the Community Preservation Fund Report CP-2 that is due on October 31.
- Appropriations from Community Preservation Fund (CPF) FY2023 estimated revenues prior to July 1 are neither recorded nor expendable until July 1.
- Any Enterprise Fund related capital project deficit recorded in the Capital Projects Fund may reduce free cash or retained earnings depending upon the fund intended to finance the capital project.
- BOA has noted that a number of balance sheet reports reflect recurring deficits in certain grants. While BOA may reduce free cash for any grants that have been reported in deficit on the balance sheet, any these deficits will not have to be raised in the FY2023 tax rate,

unless requested by BOA. However, accounting officials should analyze the deficit funds and plan to provide for the deficit in the near future, should the determination be made that the deficit is structural.

Potential Increases to Free Cash

The following amounts may be requested by the jurisdiction's accounting official to be included in the certification:

- FY2022 state aid payments received by September 30;
- Federal/state reimbursements received by September 30 for FY2022 expenditures that resulted in a deficit fund balance as of June 30 may be applied to offset the deficit; and
- Expected reimbursement from MassDOT relating to Chapter 90 apportionment reimbursements for FY2022 expenditures that resulted in a deficit fund balance as of June 30 may be applied to offset the deficit provided a documented reimbursement request was filed with the appropriate authority by September 30 and BOA must be satisfied that payment will be made.
- Borrowing executed and proceeds received by September 30 for FY2022 expenditures that resulted in a capital project deficit fund balance as of June 30 may be applied to offset the deficit.

Potential Decreases to Free Cash

The following reasons will contribute to a free cash reduction by the Director unless otherwise noted.

- The calculated amount cannot be substantiated by supporting documentation;
- A variance between the balance sheet and cash and/or outstanding receivables detail;
- Illegal deficits or any legal deficit not raised in the FY2023 tax rate, or otherwise funded before the rate is set (if tax rate certification preceded free cash certification);
- A fund balance deficit in an individual Capital Projects Fund where funds were not borrowed by September 30 (see "NEW" on the previous page);
- A deficit fund balance in the self-insurance health claims trust (Note: the deficit must be raised in the FY2023 tax rate, unless otherwise funded before then);
- A grant deficit as of June 30 for which funds were not borrowed by June 30 or reimbursement was not received by September 30.
- A Chapter 90 fund balance deficit where funds were not borrowed by June 30; reimbursement was not received by September 30; or reimbursement was not filed with MassDOT by September 30 and BOA is not satisfied that payment will be made.
- Prepayments – except prepayment of special education tuition for a period not exceeding three months as allowed per MGL c. 71 § 71D and collaboratives under MGL c. 40 § 4E.

Certification Notice

Certification letters, free cash calculations, and enterprise fund retained earning calculations will be emailed to the mayor/manager, board of selectmen, finance director, accounting officer and treasurer immediately upon approval, to the email address in the Local Officials Directory (LOD) located in Gateway. Officials are advised to periodically check the LOD for accuracy of their email addresses and notify their City/Town Clerk of any changes.

Free Cash Certification Update

Once in any fiscal year, the free cash certification may be updated. Certification may be updated by receipts attributable principally to prior fiscal year property taxes, net of refunds, received from July 1 through March 31. At a minimum, a listing of taxes collected by fiscal year must be provided to the Bureau for update purposes. Where capital project deficits caused a reduction to the free cash certification, the bureau will contemplate a free cash update for borrowing proceeds that cover such deficit, received by March 31. This free cash certification update provides additional appropriation authority.

The Director will not update certified free cash where, in the Director's opinion, appropriation of the funds could result in a negative free cash as of the following June 30. No similar update may be requested for the following fiscal year if an update is certified and a negative free cash results.

BOA will continue to allow non-recurrent distributions received in the current fiscal year to be included in a free cash certification update subject to the conditions noted above.

Grant Reimbursements

Expenditures made in anticipation of State grant reimbursements that were subsequently reduced or eliminated in FY2022 and resulted in a deficit in the grant account at June 30, 2022, and for which reimbursement is no longer anticipated, must be raised in the FY2023 tax rate ("Other Amount to be Raised" on page 2 of the Tax Rate Recap), unless otherwise funded before then.

(See Balance Sheet presentation above for additional information on the effect of grant deficits on free cash.)

Schedule A Form and Notice

The FY2022 Schedule A is due November 30, 2022. Cities and towns that do not submit the Schedule A timely may have all future local aid payments (regardless of fiscal year) withheld until the Schedule A is submitted and accepted. [G.L. c. 58, § 18F](#). The FY2022 Schedule A and the Excel version of Schedule A is currently available in Gateway.

Schedule A approval letters will be emailed to the budgeting, accountant/auditor, comptroller and finance director immediately upon approval, to the email address in the Local Officials Directory (LOD) located in Gateway. Officials are advised to periodically check the LOD for accuracy of their email address and notify their City/Town Clerk of any changes.

NEW – For Schedule A reporting purposes, please report stabilization funds in Part 6 – Trust of the Schedule A, regardless of the balance sheet treatment. Please be sure to segregate the stabilization fund and the special purpose stabilization funds into their respective columns. Any

resulting variance on the Schedule A – KAR-1 may be explained on that form as “Stabilization classified as _____ for balance sheet purposes.”

Treasurer’s Year End Cash Report

The Treasurer’s Year-End Cash Report as of June 30, 2022 must be completed and uploaded in the Gateway system by September 30, 2021 or upon submission of a balance sheet for FY2022 free cash certification, whichever is earlier.

The Accountant completes Part II or if there is a variance completes Part III of the Report. Do not check-off in Part I on behalf of the Treasurer. If you have any problems with Report submission, please contact your BOA field representative.

We recommend that the records of the Treasurer, Collector, and Accountant/Auditor be reconciled monthly during the year to facilitate the completion of this report.

DLS Website and Gateway

All Informational Guideline Releases (IGRs), Bulletins, Local Finance Opinions (LFOs) and other publications issued by DLS can only be found on our website at www.mass.gov/dls. You may now search for current IGRs, Bulletins and LFOs in the [DLSLAW Library](#).

The [Municipal Finance Trend Dashboard](#) visualizes key municipal fiscal health indicators over a period of time. The six categories of metrics include operating position, unfunded liabilities, property taxes, revenues/expenditures, debt and demographics.

DLS Municipal Finance Training and Resource Center

[The DLS Municipal Finance Training and Resource Center](#) has many educational resources for accountants and other municipal finance positions. This spring, DLS staff conducted a webinar related to the [Free Cash Upload and Certification Process](#). This webinar covers the completion and submission of documents necessary for free cash certification.

DLS Mailing List Subscription

To subscribe to automatic notification of IGRs, Bulletins, LFOs, *City & Town* e-newsletter, Cherry Sheets and other DLS publications and information, please click [here](#).

Attachments

Attachment A

Balance Sheet Checklist

Beginning in FY2022, the balance sheet checklist is no longer an excel upload into Gateway, but a form entered directly into Gateway. This form continues to be a requirement in order to submit the free cash submission page. BOA has reviewed this document and eliminated certain questions and enhanced the explanation of what is required for other questions. Please read each question carefully.

We have programmed this form to pre-fill question 8, estimated cherry sheet receipts, net of offsets, and FY2022 certified free cash and retained earnings amounts on questions 12a and b. For question 12b regarding enterprise funds retained earnings appropriations, the names of all enterprise funds for which an A-2 was completed on the FY2022 tax rate recap will also pre-fill.

Attachment B

Entries for recording subsequent year's property taxes as prepaid taxes

1.) Real Estate and Personal Property Taxes are collected

001-1040 Cash – Unrestricted	100,000	
001-1210 Personal Property Taxes Receivable FYxx		25,000
001-1220 Real Estate Taxes Receivable FYxx		75,000

To record cash receipt of Real Estate and Personal Property taxes

2.) Deferred Revenue is adjusted for property taxes collected so that the property tax receivable remains equal to the Allowance plus Deferred Revenue.

001-2610 Deferred Revenue – Real and Personal Property Taxes	100,000	
001-3910 Revenue		100,000

To adjust Deferred Revenue – Real and Personal Property Taxes

3.) At year end, the property taxes for the subsequent year need to be removed from current year receivables, and recorded as a liability

001-1210 Personal Property Taxes Receivable FYxx	25,000	
001-1220 Real Estate Taxes Receivable FYxx	75,000	
001-2680 Prepaid Taxes		100,000

To reclass the prepayment of subsequent year's property taxes to a liability account

4.) The prepaid tax revenue also needs to be removed from revenue, and by default, undesignated fund balance. The deferred revenue also needs to be adjusted so that the property tax receivable remains equal to the Allowance plus Deferred Revenue.

001-3910 Revenue	100,000	
001-2610 Deferred Revenue – Real and Personal Property Taxes		100,000

To reclass the revenue from the prepayment of the subsequent year's property taxes so that revenue is adjusted, as well as undesignated fund balance, when the revenue closes

On July 1st, entries 3 and 4 are reversed and the revenue will be recorded correctly in the proper fiscal year.

Attachment C

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Capital Project Fund Balance Detail								
as of June 30, 2022								
(Unaudited)								
Fund Number	Fund Name	Accounts Receivable	Deferred Revenue	Fund Balance 6/30/2022	Receipts thru 9/30/2022	BAN's 6/30/2022	BAN's / Debt Issued 7/1/2022 - 9/30/2022	Remaining Deficit 6/30/2022
								0.00
								0.00
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								0.00
								0.00
								0.00
								0.00
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								0.00
								0.00
								0.00
								0.00
								0.00
Total Capital Projects Fund Balance		0.00	0.00	0.00	0.00	0.00	0.00	0.00

Key points:

The debt listed in this new column should not appear on the combined balance sheet, as it was issued subsequent to 6/30.

Debt issuances should only be listed in this column if a deficit remains after receipts through 9/30 and BAN's issued through June 30.