



# 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: June 2026

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.

### **FEMA and COVID-related Special Revenue Funds**

Deficits in FEMA and CvRF-MP or ESSER special revenue funds on the 6/30/2026 balance sheet must be resolved according to procedures outlined [here](#), during the FY2027 tax rate setting process.

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

### **Audited Financial Statements**

[G.L. c. 44 § 42](#), requires the following regarding the submission of audited financial statements to DLS:

*“Whenever a city, town or district causes an audit of its accounts or the accounts of separate departments to be made by a firm or person of its own selection, the city, town or district clerk shall immediately, upon the employment of such firm or person, file the name and address with the director, and such firm or person shall, within 10 days after making the report of the audit and recommendations to the city, town or district, file a certified copy thereof with the director.”*

We require that audit firms upload these reports directly into our Gateway system. If your municipality/RSD had an audit for FY’s 2021 through 2025, please contact your audit firm and request that they upload the audited financials and management letter, if one was provided, into Gateway. The instructions for the firm to do this can be found [here](#).

### **FY2026 Deficits – Snow and Ice and COVID-19**

We are aware that there is legislation pending in a supplemental budget for FY2026 that may allow the amortization of any FY2026 snow and ice deficit or COVID -19 deficit that must be provided for during the FY2027 tax rate setting process. If legislation is signed into law, instructions will follow under separate cover.

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## Balance Sheet - Form Submission Requirements

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 FY2026 reporting, cities, towns and districts that submit their balance sheet for free cash are required to submit the following (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):

- The Excel Standardized Balance Sheet template that contains the following worksheets (except cities and towns using the STAT accounting method)
  - 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
- Cash Reconciliation Report
- Outstanding Receivables Report
- Snow and Ice Data Sheet
- Statement of Indebtedness
- Treasurer's Year-End Cash 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.

For the Excel Standardized Balance Sheet, Statement of Indebtedness and Treasurer's Year-End Cash Report, please use the forms on the Gateway Balance Sheet or District Balance Sheet landing page to ensure you are using the most current version of these forms.

In an effort to better prioritize balance sheet review, communities are 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, 2026, 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.

In the past, there have been multiple communities who did not press “submit” on the balance sheet submission page and, therefore, BOA was not notified that the free cash submission was completed. Please complete this important step to ensure your BOA field representative knows your free cash submission is ready for review.

Please take the time to double check your work prior to submission. See Attachment C for a job aid to assist you in this regard. The Director of Accounts may require that, after more than two incorrect submissions, free cash cannot be certified until the FY2026 audit has been completed and a draft audit report is submitted to BOA.

### **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 the general fund.
- If committed before July 1, the FY2027 property tax commitment is not recorded until July 1. Cash received before July 1 toward that commitment is recorded as FY2027 deferred revenue. See illustrative journal entries in Attachment A.
- Please record only realized gains/losses on investments in the general fund. Unrealized gains/losses recorded in the general fund will negatively impact your free cash certification and should not be recorded there. Municipalities will need to comply with this GAAP requirement for their year-end audits, but not for free cash certification.
- 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, 2026 deficit in this fund is a reduction to free cash and must be raised in the FY2027 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 FY2026 reimbursement, not including extraordinary assistance or funds obligated by the school committee for FY2027 purposes. Any fund balance in excess of the allowable balance must close to the General Fund on June 30.
- 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.
- 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. These borrowings should not appear on the 6/30/2026 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. See Attachment B.
- A column has also been added to indicate whether the capital project relates to an enterprise fund, so that the retained earnings calculation and not the free cash calculation can be reduced for any related deficit. See Attachment B.
- 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. Despite this due date, this form must be submitted with the free cash submission or the FY2027 tax rate recap, whichever is first.
- Appropriations from Community Preservation Fund (CPF) FY2027 estimated revenues prior to July 1 are neither recorded nor expendable until July 1, unless in certain circumstances, deemed an available fund by the Director of Accounts.
- 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 sheets reflect recurring deficits in certain fund balances. BOA will reduce free cash for any fund balance deficits that have been reported on the balance sheet, and BOA may request that these deficits be raised on the FY2027 tax rate recap. 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:

- FY2026 state aid payments received by September 30;
- Federal/state reimbursements received by September 30 for FY2026 expenditures that resulted in a deficit fund balance as of June 30 may be applied to offset the deficit;
- Expected reimbursement from MassDOT relating to Chapter 90 apportionment reimbursements for FY2026 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; and

- Borrowing executed and proceeds received by September 30 for FY2026 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 FY2027 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;
- A deficit fund balance in the self-insurance health claims trust (Note: the deficit must be raised in the FY2027 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, or those allowed under An Act Relative to School Operational Efficiency, Chapter 198 of the Acts of 2022, [Bulletin 2022-8](#).

### **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 by receipts attributable principally to prior fiscal year property taxes, net of refunds, received from July 1 through March 31. At a minimum, a list 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 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 FY2026 and resulted in a deficit in the grant account at June 30, 2026, and for which reimbursement is no longer anticipated, must be raised in the FY2027 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 FY2026 Schedule A is due November 30, 2026. 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 FY2026 Schedule A and the Excel version of Schedule A is currently available in Gateway.

Schedule A approval letters will be emailed to the 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.

For Schedule A reporting purposes, please report stabilization funds in Part 6 – Trust of the Schedule A, regardless of the balance sheet treatment. Any resulting variance on the Schedule A – KAR-1 may be explained on that form as "Stabilization classified as \_\_\_\_\_ for balance sheet purposes."

Please be sure to separate the stabilization fund and the special purpose stabilization funds into their respective columns. Any necessary transfer of fund balances to the correct column due to incorrect reporting in a prior year may be made on the "adjustment" line. BOA will ask you to revise Schedule A if these funds are not properly reported.

Additionally, if no 60-day accrual is made for balance sheet purposes, please do not include one on the Schedule A.

### **Treasurer's Year-End Cash Report**

The [Treasurer's Year-End Cash Report](#) as of June 30, 2026 must be completed and uploaded in the Gateway system by September 30, 2026, or upon submission of a June 30, 2026 balance sheet free cash/excess & deficiency certification, whichever is earlier.

The accountant completes Part II or, if there is a variance, 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.

## **Cash Reconciliation**

A complete cash reconciliation includes reconciliation of the treasurer's cash book to the bank statements and the reconciliation of the treasurer's cash book to the general ledger cash accounts. The Director of Accounts may request documentation that this process has been completed at any time in order to perform the statutory duties of free cash certification.

## **Statement of Indebtedness**

The [Statement of Indebtedness](#) as of June 30, 2026 must be completed by September 30, 2026, or upon submission of a June 30, 2026 balance sheet for free cash/excess & deficiency certification, whichever is earlier. This form is downloaded from the DLS website and then uploaded into Gateway and the summary is entered directly into Gateway.

If you have any problems with submission in Gateway, please contact your BOA field representative.

## **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](http://www.mass.gov/dls). You can 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 five categories of metrics include operating position, property taxes, revenues/expenditures, debt and demographics.

Please visit the [Data Analytics and Visualizations](#) section of our website where you will find many interesting visualizations, including [Free Cash Use](#), [Trends in Local Receipts](#) and the [Municipal Financial Self-Assessment](#). The [Free Cash Proof Comparison](#) report on the Gateway landing page shows municipalities where their free cash is generated for the past three years. This trend report will add additional fiscal years as free cash certification is completed.

[The DLS Municipal Finance Training and Resource Center](#) has many educational resources for accountants and other municipal finance positions. This includes the three webinars BOA completed that we believe will assist municipal finance officials in the completion of their free cash and tax rate recap submission, as follows:

- [Balance Sheet Checklist Webinar](#)
- [Free Cash Upload & Certification Process Webinar Recording](#) (Video)
- [Completing the Tax Rate Recap Forms Webinar](#) (Video)
- [2024 Community Preservation Act Webinar](#) (Video)

## **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

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 1<sup>st</sup>, entries 3 and 4 are reversed and the revenue will be recorded correctly in the proper fiscal year.



## **Balance Sheet Submission Review Job Aid**

### **Form: Balance Sheet Submission**

Did you upload the following documents?

- Excel Combined Balance Sheet
- Closed System Generated General Fund Trial Balance
- System Generated Undesignated Fund Balance Activity. Please include a crosswalk from this report to the entries in the undesignated fund balance roll-forward in the combined balance sheet template for beginning balance, reversal of prior year's fund balance reservations, setting up of the current year fund balance reservations, revenue and expenditure close-out amounts. Provide documentation for any material audit adjustments.
- Completed and signed reimbursement requests for any Chapter 90 reimbursements pending, not yet received.
- Please include the date of any meeting scheduled to appropriate from certified free cash by the council or town meeting.
- Sign and press the submit button on the form or your field representative will not be notified that your forms are ready for review and certification.

### **Form: Excel Combined Balance Sheet**

- Ensure the balance sheet is in balance by fund and in total.
- If you are unable to print a closed system generated general fund trial balance which aggregates the amounts from all general funds (if there are multiple), please complete the "Multiple General Fund Detail" tab, and upload a system generated trial balance for each general fund to the Balance Sheet Submission page. Make sure the amount on the trial balance agree to the amounts entered on this tab.
- For General Fund departmental receivables ONLY (not for RE, PP, TT, TF MVE or any other tax receivable) in the General Fund, complete the "General Fund Receivables" tab. The totals of each column of this tab must agree to the combined balance sheet for the receivable and deferred revenue amounts.
- For each of the other Fund Balance Detail tabs, please ensure that the total of each column for accounts receivable, deferred revenue, fund balance, and BANS agrees to the totals for each of those amounts on the combined balance sheet for the applicable fund.
- For the Undesignated Fund Balance tab, the amounts to complete the top part up to "Prior Year Total Fund Balance" all MUST agree to the prior year balance sheet submitted for free cash certification. The subsequent amounts up to "Current Year Reserved for Snow and Ice Deficits" all MUST agree to the current year balance sheet submitted for free cash certification. The revenue and OFS and Expenditures and OFU must all agree to the system generated undesignated fund balance detail. If any amounts on this tab do not tie directly and obviously to the system generated undesignated fund balance detail, you must provide a crosswalk, or you will be asked for one by your BOA Field Representative. Please upload the crosswalk to the Balance Sheet Submission page.

### **Form: Balance Sheet Checklist**

- Please answer all questions, including questions 13 through 20.
- For questions 9 and 10, an amount should be in the budgeted column if it was voted by city council or town meeting or estimated on the FY25 tax rate recap as a funding source.
- For question 12a, if the total of column b does not equal the amount in part c, “Free Cash” line, you must provide an explanation of why that is. For example, the total of 12a, col. b might include a free cash vote toward the FY26 budget of \$500,000 and a free cash transfer to stabilization of \$500,000. The total of the two votes is \$1,000,000, but 12a, part c “Free Cash” might only show \$500,000 from free cash as part of Fund Balance Reserved for Expenditures, because the transfer to stabilization was made by the accountant the day after the vote and prior to June 30, 2025. If the transfer to stabilization is made after June 30, 2025, the amount on 12a, part c “Free Cash” should show \$1,000,000.
- The example above also pertains to question 12b for Retained Earnings Votes.

### **Form: Treasurer’s Year End Report**

- Ensure the subtotals on the excel version of the form and the Gateway form agree.

### **Form: Cash Reconciliation Report**

- Ensure the cash totals for each fund agree to the combined balance sheet for each fund type. If it does not, a correction will be requested by your BOA field representative.
- Provide documentation for any material items listed in the reconciling items section of the form. Upload this documentation to the Cash Reconciliation Form. Any cash variance on that line will be a reduction of free cash.
- To ensure that cash is reconciled, the Director may request evidence that the treasurer’s cash book has been reconciled to the bank statements, and that the treasurer’s cash book has been reconciled to the general ledger. This documentation may include bank statements, cash book printouts and general ledger system printouts for the cash accounts.

### **Form: Outstanding Receivables**

- Ensure that totals by category in the “Balance per General Ledger” column agree to the amounts for that category on the Excel combined balance sheet. If they do not, a correction will be requested by your BOA field representative.
- Provide documentation for any explainable variances in the variance column of the form. An example of this could be turnover timing. Upload turnover documentation to the Outstanding Receivables Form. Any unexplained variances will be a reduction of free cash.
- To ensure that Outstanding Receivables are reconciled, the Director may request a copy of the collector/treasurer’s detail and general ledger printouts for the receivables accounts.

### **Form: Statement of Indebtedness**

- Ensure the subtotals on the excel version of the form and the Gateway form agree.
- Ensure that both long- and short-term debt balances from the Excel Statement of Indebtedness agrees to the amounts on the combined balance sheet. If they do not, a correction will be requested by your BOA field representative.

- Ensure that short-term debt balances covering fund balance deficits are listed in the Excel combined balance sheet detail tab for the applicable fund and that the total of the BAN's column is also in agreement with the notes payable line for that fund. If the totals don't agree, a correction will be requested by your BOA field representative.

**Form: Snow and Ice Data Sheet**

- Ensure that any deficit listed on this form on the "Deficits reported on the Balance Sheet as of 2026" line is set up in the General Fund, in the Fund Equity section on the "Fund Balance Reserved for Snow and Ice Deficit" line. This amount should be is a debit position.
- Please be aware that, if the "Original Budget" is less than the "PFY" (Prior Fiscal Year) Original Budget" and there is a snow and ice deficit, the deficit will be a reduction to free cash. [M.G.L. Chapter 44 § 31D](#).