



DLS

DIVISION OF LOCAL SERVICES
MA DEPARTMENT OF REVENUE

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Bulletin

BUL-2020-04

An Act to Address Challenges Faced by Municipalities and State Authorities Resulting From COVID-19

TO: Local Officials
FROM: Mary Jane Handy, Director of Accounts
DATE: May 2020
SUBJECT: **Appropriation of July 1, 2019 Certified Free Cash and Retained Earnings
After June 30, 2020**

This Bulletin provides guidance to local officials regarding the procedures for the appropriation of free cash and retained earnings after June 30, 2020 as authorized by section 6 of [An Act to Address Challenges Faced by Municipalities and State Authorities Resulting From COVID-19, Chapter 53 of the Acts of 2020](#), (the Act). Section 6 provides an option for cities, towns and districts to appropriate from July 1, 2019 certified free cash and retained earnings after June 30, 2020 “as a funding source for the city’s, town’s or district’s fiscal year 2021 expenditures” if the city, town or district’s annual budget is delayed beyond June 30, 2020 due to the current COVID-19 emergency (“emergency”).

I. “Free Cash”

A. Definition

Free cash is defined as a city’s, town’s or district’s undesignated fund balance (with any required adjustments) certified by the director as of July 1 and available for appropriation by a majority vote of a city’s, town’s or district’s legislative body (the city or town council, or town or district meeting). Free cash is based on the June 30 balance sheet which reflects operational results for that fiscal year.

Free cash cannot be appropriated until it has been certified by the director under [G.L. c. 59, § 23](#) and any unappropriated balance expires on the next June 30 and is unavailable for appropriation after June 30 until free cash is recertified as of the next July 1.

Free cash, once certified, may be appropriated for any lawful purpose.

B. Special Accounting Treatment

Normally, unappropriated free cash certified as of July 1, 2019 expires June 30, 2020. [Section 6 of chapter 53](#) allows the director to authorize the appropriation of free cash certified as of July 1, 2019 after June 30, 2020, to fund the city's, town's or district's fiscal year 2021 expenditures if a city's, town's or district's adoption of an annual budget was delayed due to the emergency. This authorization will also apply if a city, town or district was able to adopt an abbreviated FY21 operating budget before June 30, 2020, but was unable to approve its FY21 capital budget appropriations, FY21 appropriations to reserves or other FY21 expenditure appropriations. Section 6 does not authorize appropriation of July 1, 2019 certified free cash after June 30, 2020 for fiscal year 2020 expenditures.

In order for the director to authorize the appropriation of July 1, 2019 certified free cash after June 30, 2020, the community or district is required to complete and submit in Gateway the Free Cash Available for FY2021 Appropriation form found under the "Misc Forms" module to show that there is an unappropriated balance remaining in its free cash certified as of July 1, 2019. (See Sample Calculation of Available Free Cash at the end of this Bulletin.) The director will send written notification to the city, town or district of the authorized amount. Authorization of the director will expire upon the earlier of the setting of the community's FY21 tax rate or certification of its free cash as of July 1, 2020.

II. "Retained Earnings"

A. Definition

A city's or town's retained earnings represents the amount of enterprise fund net assets unrestricted that is certified by the director to be available for appropriation. Once certified by the director, retained earnings may be appropriated for particular enterprise purposes, including to support funding for the next fiscal year's enterprise budget.

Retained earnings is certified by the director as of July 1 each year upon submission of a community's June 30 balance sheet with supporting documentation by the local accounting official and may be appropriated through the following June 30 only after certification of the amount by the director and not in excess of the amount certified. [G.L. c. 44, § 53F1/2](#).

While [G.L. c. 44, § 53F1/2](#) is not applicable to special purpose districts, a district may be allowed an enterprise fund by special act adopted by the state legislature. If a special purpose district has a special act adopted by the state legislature that requires the director's certification of enterprise retained earnings, the below special accounting treatment will be applied.

B. Special Accounting Treatment

Normally, unappropriated certified retained earnings certified as of July 1, 2019 expires June 30, 2020. [Section 6 of chapter 53](#) allows the director to authorize the appropriation of retained earnings certified as of July 1, 2019 after June 30, 2020, to fund the city's, town's or district's fiscal year 2021 enterprise expenditures if the adoption of an annual budget was delayed due to the emergency. This authorization will also apply if a city, town or district was able to adopt an abbreviated FY21 operating budget before June 30, 2020, but was unable to approve its FY21

enterprise appropriations. Section 6 does not authorize appropriation of July 1, 2019 certified retained earnings after June 30, 2020 for fiscal year 2020 expenditures.

In order for the director to authorize the appropriation of July 1, 2019 certified retained earnings after June 30, 2020, the community is required to complete and submit in Gateway the Retained Earnings Available for FY2021 Appropriation form found under the "Misc Forms" module to show that there is an unappropriated balance remaining in its retained earnings certified as of July 1, 2019. (See Sample Calculation of Available Retained Earnings at the end of this Bulletin.) The director will send written notification to the city, town or district of the authorized amount. Authorization of the director will expire upon the earlier of the setting of the community's FY21 tax rate or certification of its retained earnings as of July 1, 2020.

Sample Calculation
Retained Earnings Available for FY2021 Appropriation
Section 6 of Chapter 53 of the Acts of 2020

Enterprise Fund

Retained Earnings Certified as of July 1, 2019 \$ _____

**Retained Earnings Appropriated from the
July 1, 2019 Certification and Reported on
the FY2020 Recap Form A-2 Enterprise Funds
(Verify the amount was reported correctly)** - \$ _____

**Retained Earnings Appropriated from the
July 1, 2019 Certification After FY2020
Recap Approval through June 30, 2020** - \$ _____

**Retained Earnings Certified as of July 1, 2019
Available for Appropriation after June 30, 2020** = \$ _____