

Where does free cash come from?

START WITH:	Undesignated/Unreserved Fund Balance
MINUS:	Account Receivables (i.e. Senior Tax Deferrals)
PLUS:	Credit balances in Deferred Revenue
MINUS:	Debit balances in other funds
MINUS:	Overspent appropriations
MINUS:	Prepaid Items
MINUS:	Amounts appropriated from free cash
PLUS:	60 day collections from date of mailing, net refunds, if tax bills issued after May 1st
PLUS:	Late payments

In other words...

START WITH:	Last year's free cash
MINUS:	Appropriations from free cash
PLUS:	Excess revenue (or minus for deficit)
PLUS:	Budget turn-backs (or minus overspending X2)

Free Cash

[Free cash](#) is a revenue source which results from the calculation, as of July 1, of a community's remaining, unrestricted funds from operations of the previous fiscal year based on the balance sheet as of June 30. It typically includes actual receipts in excess of revenue estimates and unspent amounts in departmental budget line-items for the year just ending, plus unexpended free cash from the previous year. Free cash is offset by property tax receivables and certain deficits, and as a result, can be a negative number.

Cities and towns generally use free cash to support current year operations or as a revenue source for the ensuing year's budget. However, until a balance sheet for the prior year is submitted by the accountant, auditor or comptroller and free cash is certified by the Director of Accounts, it is not available for use. DOR certification protects communities from relying on free cash that does not materialize due to an inaccurate, unconfirmed local estimate.

DOR recommends that communities understand the role free cash plays in sustaining a strong credit rating and encourages the adoption of policies on its use. Under sound financial policies, a community would strive to generate free cash in an amount equal to 3-to-5 percent of its annual budget. Free cash would not be depleted in any year, so that the following year's calculation would begin with a positive balance. Conservative revenue projections and departmental appropriations would be orchestrated to produce excess income and departmental turn backs. As a non-recurring revenue source, a prudent use of free cash would be to fund one-time expenditures, a capital purpose or to replenish other reserves. If projected as a revenue source to support the ensuing year's operations, the amount used would be restricted to a percentage of total free cash.

However, DOR also recommends that free cash not be available to supplement current year departmental operations. By eliminating the expectation of additional resources later in the fiscal year to back-fill budgets, department heads will produce more accurate and realistic annual appropriation requests.

Under any circumstance, the use of free cash requires an appropriation approved by the city council on recommendation of the mayor, town council or town meeting, but only after it is certified by DOR. The same rules apply to DOR certification of retained earnings which is the enterprise fund equivalent of free cash.