

4.3 Free Cash

Free cash is the amount of unrestricted funds available from operations that can be used as a funding source for appropriation after certification by the Director of Accounts. Free cash is certified for a community's general fund and enterprise funds based upon the community's balance sheet for the fiscal year ended on June 30. The town accountant/city auditor submits the balance sheet to the Bureau of Accounts after the accounts have been closed and reconciled. Also, the treasurer must submit the Quarterly Reconciliation of Treasurer's Cash report, which reconciles with the balance of the accountant.

Free cash must be certified by the Director of Accounts as of July 1, and cannot be appropriated until it is certified. Once certified, free cash can be appropriated up until the following June 30 by town meeting or city council for any legal spending purpose. Free cash provides communities with flexibility in that it is the major source of funding for supplemental appropriations after the budget has been adopted and a tax rate has been set for the year. Free cash balances should be used for non-recurring expenses and not to balance operating budgets.

Free cash is generated when actual operations of the fiscal year compare favorably with budgeted revenues and expenditures. It results when actual revenue collections exceed the estimates used for budgeting and actual expenditures and encumbrances (committed funds not yet expended) are less than appropriations. Free cash is affected by uncollected property tax receivables, illegal deficits, overdrawn grant accounts and deficits in other funds (*e.g.*, special revenue funds, agency funds).

In addition to the annual certification, a community may have its free cash adjusted (updated) by the Director of Accounts once during the fiscal year. Updated free cash results from additional collections of prior years' property taxes, tax title redemptions and tax foreclosure sales from July 1 through March 31. Communities that request and appropriate adjusted free cash should be aware of the possibility of creating a free cash deficit in the following fiscal year.

A community will improve its free cash position through prudent financial planning and development of sound financial policies. It can increase free cash by conservatively estimating local receipts and aggressively pursuing the collection of receivables. A community may adopt policies to maintain a certain level of free cash in order to provide a financial cushion to guard against economic downturn or to meet unforeseen expenditures. Consistent generation of positive free cash usually signals sound financial management.