

Massachusetts Department of Revenue



Division of Local Services

Informational GUIDELINE Release

Commissioner Ira A. Jackson
Deputy Commissioner Edward J. Collins, Jr.

Bureau of Accounts
Informational Guideline Release (IGR) No. 86-104
June 1986

FREE CASH

This Release informs local officials of the certification procedures for free cash and adjusted free cash and clarifies certain aspects of the calculation of free cash.

It replaces any previous guidelines and announcements regarding free cash.

Topical Index Key:
Accounting Policies and Procedures
Financial Management

Distribution:
Accountants/Auditors
Selectmen/Mayors
Assessors
Treasurers
City Council Presidents
Finance Committees
School Superintendents
District Commissioners



THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF REVENUE
DIVISION OF LOCAL SERVICES

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COMMISSIONER

EDWARD J. COLLINS, JR.
DEPUTY COMMISSIONER

BUREAU OF ACCOUNTS
INFORMATIONAL GUIDELINE

RELEASE NO. 86-104

SUBJECT:

FREE CASH

June 1986

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This Informational Guideline Release (IGR) informs communities of the certification procedures of free cash and adjusted free cash, and clarifies certain aspects of the calculation.

I. DEFINITION OF "FREE CASH":

A city, town or district's free cash represents the amount of a community's funds that are unrestricted and available for appropriation. These available funds, once certified, may be used to support supplemental appropriations during the year or at the Annual Town Meeting to fund next years budget. Available funds are certified by the Director of Accounts as of July 1 each year. Chapter 59, Section 23 of the Massachusetts General Laws requires that the Director of Accounts certify the ". . . amounts of available funds on hand on . . . July the first . . .". These available funds are best known as "free cash" and may only be used after certification by the Bureau of Accounts.

Simply put, free cash is a community's unrestricted available funds that may be used as a funding source for appropriations. Free cash is generated when the actual operating results compare favorably with the budget. Specifically, free cash is generated when actual revenue collections are more than budget estimates, and when expenditures and encumbrances (unpaid bills and orders) are less than appropriations, or both.

Free cash provides communities with a certain flexibility in that it is the major source of funding for any supplemental appropriation after the annual budget has been adopted and a tax rate set.

Free cash can only be used after the certification process is complete. For example, the July 1, 1985 certified amount may be used to fund supplemental appropriations voted during fiscal year 1986 or applied as a revenue source to support the fiscal year 1987 budget which is voted in the Spring of 1986.

II. CERTIFICATION:

Free cash is certified by the Bureau of Accounts as of July 1 each year upon the submission of a community's June 30 balance sheet. A timely and accurate calculation of free cash is very important to a jurisdiction's financial planning process.

- A. A community must submit the prescribed statement of financial position, most commonly referred to as a "balance sheet", dated as of the close of business on June 30. All restrictions, designations or appropriations of the fund balance account, (formerly known as the surplus revenue or excess and deficiency account), should be recorded as of June 30.
- B. If a community does not record votes of available funds on its accounting records until July 1 of the next year, a schedule of the following items is required:
 1. Appropriations of "free cash" not recorded or posted to the balance sheet prior to June 30.
 2. Revenue, overlay, offset receipt and illegal appropriation deficits, if any, should be included in and separately identified on the balance sheet. If any are not, however, include them on this schedule.
- C. Based on the information submitted, a community will receive notification of the total amount of free cash which is certified and therefore, available for appropriation.
- D. Additionally, a number of communities have experienced late tax billings due to uncompleted revaluation update projects. These communities will qualify for special consideration because of the inability to collect a significant portion of their revenue prior to the close of the year. They should submit, along with the June 30 balance sheet, the following:
 1. The amount of the total late commitment.
 2. The date of the mailing of the tax bills.
 3. The daily collections of the late commitment for the first sixty (60) days after the mailing.
 4. If the receipts of any of the sixty (60) days itemized in 3. above were recorded prior to the balance sheet cut-off, please identify them on the schedule.

III. CALCULATION OF FREE CASH:

The calculation of free cash considers:

- o a community's undesignated fund balance, (commonly referred to as E & D or surplus revenue.)
- o less - uncollected property taxes
 - overdrawn accounts
 - certain deficits

The calculation considers these factors to compensate for Massachusetts budgetary practices in that:

- o Property Taxes are recognized as revenue in the year of the levy, regardless of when they are actually collected.
- o Overdrawn accounts and deficits are provided for in the subsequent years budget although already expended.

IV. ADJUSTED FREE CASH:

In addition to the annual July 1 certification, communities are allowed to have their free cash updated one time during any year to provide additional available funds to support appropriations. This adjusted free cash is the balance of any unappropriated free cash together with the total of the current year collections for prior real and personal property taxes, receipts from tax title redemptions, and the proceeds from the sale of tax possessions. Once again, as is the case with certification of free cash, any adjustment to free cash must be approved by the Bureau of Accounts prior to its use.

Communities are allowed to have their free cash updated once during a year to provide additional available funds to support appropriations.

A. Use:

Adjusted free cash may also be used to support appropriations. This use, however, is subject to these three very important restrictions:

1. The timing of additional collections for updates of free cash is restricted to July 1 through March 31. The amount of current year collections from prior real and personal property taxes, the proceeds from the sale of tax title possessions and, the receipts from tax title redemptions may not include collections after March 31.
2. The adjusted free cash must include only certified free cash and subsequent collections that have not been previously appropriated.
3. The subsequent collections may be used only with the approval, in advance of their use, of the Director of Accounts.

IV. ADJUSTED FREE CASH (continued):

B. Authorization:

The authorization to use adjusted free cash during a fiscal year is predicated on a city, town or district providing reasonable assurance that such authorization will not result in a deficit "free cash" position at year-end. This is very important to a community's overall financial health as a year-end free cash deficit is a strong indicator of an unhealthy financial condition.

Communities that request an update of free cash will be required to submit a projected year-end balance sheet, and this along with historical collection information and cash flows will be taken into consideration in evaluating the request.

C. Prior Approval Required:

Again, although there is no restriction on the local appropriating authority's discretion as to the use of free cash, it is mandatory to obtain approval from the Director prior to the time that adjusted free cash is to be considered as a funding source by the local appropriating authority such as town meeting or city council.

ANY APPROPRIATION FUNDED FROM FREE CASH WHICH HAS NOT BEEN
CERTIFIED WILL NOT BE ALLOWED.

All requests for approval, including all required supporting documentation, should be submitted in writing to the:

Bureau of Accounts
P.O.Box 7015
Boston, MA 02204

Following these procedures will assist you in obtaining prompt approval of your tax rate.