

# Town of North Attleborough – Free Cash Policy (Approved by the Board of Selectmen on August 27, 2015)

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## Policy Statement

This policy sets forth guidelines and formulae for determining the use of certified free cash in the operating and capital budgets and the stabilization fund. It is intended to reduce the dependence upon the use of free cash in the operating budget and to maximize the investment of free cash into the stabilization fund for the purposes of growing the fund.

## Definitions

Free Cash (sometimes referred to as “Undesignated Fund Balance ”): A community's unrestricted available funds that may be used as a funding source for appropriations. Unreserved Fund Balance is generated when the actual operating results compare favorably with the budget. It can only be used after the certification process by the Department of Revenue is complete. For example, the July 1, 2014 certified amount may be used to fund supplemental appropriations voted during fiscal year 2015, or applied as a revenue source to support the fiscal 2016 budget voted in the summer of 2015.

## Timeline

Free Cash is certified by the Department of Revenue once the Town has submitted a Balance Sheet and other reports as required. The amount should be certified prior to the Semi Annual Town Meeting that is held the 3rd Monday in October. Free Cash, once certified, is immediately available as a funding source, but may only be used until the end of the current fiscal year.

## Policy Description

Free cash starts with the ending Undesignated Fund balance of the General Fund. The Department of Revenue reduces that amount based on applied procedures to make sure that the municipality has enough reserves to meet current obligations. The use of free cash as a revenue source for current operating budgets is risky since these amounts significantly deviate from year to year based on operating results. Management uses an allocation indicative to achieving financial policy goals for the Town: reduce the dependence on free cash for the operating budget, raise the Stabilization Fund to 5% of the General Fund operating budget and provide cash to the capital budget to offset debt service.

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The following priorities and allocation for using Free Cash are as follows:

1. An amount should be determined by management, with approval by the Board of Selectmen and Finance Committee, to aid in meeting current fiscal year obligations. This amount will be set aside from Free Cash for use during the duration of the current fiscal year. (This amount should be based on what has been used historically.) Such uses at subsequent town meetings would include, but not be limited to, the following:
  - i. Fund Shortages in Veteran’s Benefits
  - ii. Fund Snow & Ice Deficits
  - iii. Fund Annual Town Meeting Articles that went previously unfunded
  - iv. New One-Time appropriations
  - v. Lower Cost Capital Improvement Plan items
  - vi. Supplement Budget Lines
2. Appropriations required for extraordinary or unforeseen circumstances that are considered too significant to come from the Finance Committee Reserve. (This would also include things like mitigation funds accepted by the town but lapse to Free Cash)
3. Replace 100% of funds taken from General Stabilization to fund snow and ice deficits in the previous fiscal year.
4. Amounts received from betterments in the previous year will be transferred to the Betterment Stabilization fund.
5. A minimum of 75% of the remaining amount will be transferred to the General Stabilization account until the policy goal of 5% of annual General Fund budget is reached. In the event that the Stabilization account achieves its target, the amount in excess of the 5% of the operating budget should be transferred to fund Other Post Employment Retirement Benefits (OPEB).
6. The remaining Free Cash may be used to Supplement Budget lines or any other purpose.
7. Residual amounts remaining at year end will be transferred to General Stabilization.

### Exceptions

Difficult fiscal conditions may affect the year to year implementation of this policy; deviation should be determined as fiscally responsible. The allocations and priorities stated in this policy do not mean that additional funds cannot be allocated to the Stabilization fund from free cash; it means that these are the minimum amounts recommended from the certified free cash amount.