



Town of Winchester Operating Reserves Policy

Adopted by Board of Selectmen on November 1, 2010

It is the Board of Selectmen's Policy:

- 1) To target Operating Reserves to be **10%** of estimated General Fund Revenues, with a minimum target of **6%**.
- 2) Fund balances in the Building and Capital Stabilization Accounts shall not be used in satisfying the Town's Operating Reserves targets, since these funds are restricted.
- 3) In preparing the Town budget, it shall be the goal of the Board of Selectmen to limit the amount of Free Cash used to balance the operating budget to nonrecurring expenditures (for example, capital and tax-supported debt service).
- 4) It shall be the Board's long-term objective to have a budget that establishes Recurring Expenses equal to Recurring Revenue.
- 5) It shall be the Board's goal to annually transfer funds from Free Cash to the General Stabilization Fund in order to reach the **10%** Operating Reserve policy target.

GLOSSARY OF TERMS

Operating Reserves - Reserves generated from general fund operations that are unrestricted and available for appropriation. Operating Reserves is the sum of Undesignated General Fund Balance and the General Stabilization Fund.

General Stabilization Fund - Reserves transferred to the Town's General Stabilization Fund are available for appropriation for any municipal purpose. Building Stabilization and Capital Stabilization Funds are restricted for their respective purposes.

Undesignated GENERAL Fund Balance - A generally accepted accounting principle (GAAP) term that represents expendable available financial resources that can be used to meet contingencies and working capital requirements.

Free Cash - A Massachusetts statutory accounting term, roughly equivalent to Undesignated General Fund Balance. Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years.

Non-recurring Expenses - Expenses, such as capital, that, unlike salaries, may be one-time expenses or may be deferred if necessary.

Non-recurring Revenues - Revenues such as proceeds from the sale of real estate, surpluses derived from revenues in excess of budget and unexpended appropriations, and any other extraordinary revenue.

Recurring Expenses - Expenses, such as salaries, utilities, contractual obligations and other predictable on-going operating expenses.

Recurring Revenues - Revenues such as tax receipts, State and Federal aid, and local receipts.