



Fund Balance Policy

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Reference Number: MTAS-578

The GASB statement 54 requires that governments report certain policies and procedures in the footnotes to the audited financial statements. Does this mean cities have to adopt a formal fund balance policy? No, but adopting a fund balance policy is a good idea and is viewed favorably by credit rating agencies. Regardless of whether governments adopt a formal fund balance policy the following information must be included in the audited financial statements:

1. For committed fund balance:
 - a. What is the government's highest level of decision-making authority, i.e. full board?
 - b. What is the formal action required to be taken to commit resources, i.e. an ordinance.
2. For assigned fund balance:
 - a. The body (committee) or individual (mayor, city manager or finance director) authorized to assign resources for a specific purpose.
 - b. The policy established by the governing body that gives that authorization.
3. What order will fund balances be utilized?
 - a. The government must state whether restricted or unrestricted resources will be used when expenditures are incurred where either may be used.
 - b. Disclosure must also be made regarding whether committed, assigned and unassigned fund balances are considered to be used when the expenditure incurred is for the purpose of those classifications.
4. The purpose of each special revenue fund, identifying each specific revenue stream that is committed or restricted.
5. Detail of the nature of the non-spendable, restricted, committed or assigned fund balance amounts if not presented on the face of the balance sheet.

When developing a fund balance policy certain elements should be considered. The policy should include the above required disclosures as detailed in items 1-3, the minimum unrestricted fund balance requirement for the general fund and the policy for use and replenishment of stabilization (rainy day) fund resources if the government has one. The Government Finance Officers Association recommends that governments keep at least two months of operating revenues or expenditures in the general fund balance. Maintaining a comfortable cushion is crucial to good financial management because it helps governments compensate for unexpected events. Following is a link to the GFOA best practice on fund balance guidelines: <http://www.gfoa.org/fund-balance-guidelines-general-fund> [1]

Links:

[1] <http://www.gfoa.org/fund-balance-guidelines-general-fund>

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