



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Sample Minimum 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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Sample Minimum Fund Balance Policy

Reference Number: MTAS-583

Purpose

The city hereby establishes and will maintain reservations of fund balance as defined herein in accordance with Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions and with regards to guidance from the Government Finance Officers Association (GFOA) GAAFR. This policy shall apply to the city's general fund and general debt service fund. Governmental fund balance may be composed of restricted, committed, assigned, non-spendable and unassigned amounts per GASB Statement 54.

Minimum Level of Unassigned Fund Balance – General Fund

The general fund unassigned fund balance will be maintained at a level sufficient to provide for the required resources to meet operating cost needs, to allow for unforeseen needs of an emergency nature, and to permit orderly adjustment to changes resulting from fluctuations of revenue sources. Given that current property tax collections do not begin until the fourth month of the fiscal year, Sample City will maintain at least 6 months of the next year's budget in the unassigned fund balance of the general fund.

Any amounts remaining in the fiscal year-end unassigned fund balance in excess of 6 months of the approved subsequent year's budget will be available for appropriation by the city legislative body to cover such items as revenue shortfalls and unanticipated expenditures, and to ensure stable tax rates. The city legislative body will attempt whenever possible to avoid appropriating such funding for recurring expenses.

Minimum Level of Fund Balance – General Debt Service Fund

It is the practice of the city to pay the principle and interest requirements on the city's debt obligations from the debt service fund. Each year the budget committee of the city shall determine or estimate the principle and interest requirements of the city and recommend sources of revenues to meet these actual or projected requirements. Additionally, it shall be the policy of the city to begin each fiscal year with a balance of cash or investments in the debt service fund in a conservatively calculated amount adequate to meet (1) cash flow needs, (2) budgeting contingencies, (3) emergency contingencies, (4) variable rate volatility contingencies, and (5) future forecasted needs.

Cash flow requirement component: The majority of local city revenues come from property taxes. Property taxes levied for a specific fiscal year are generally collected in the second half of that fiscal year. For this reason, it is common for the city to expend more than it collects during the first half of the fiscal year. For this reason, it shall be the policy of the city to begin each fiscal year with a sum of cash or investments equal to the debt service fund requirements scheduled to be expended during the first six months of the next fiscal year. This amount will typically equal six months of interest expense on the city's total indebtedness unless the city schedules principal payments in the first six months of the fiscal year. Generally, except for short-term capital outlay notes, the city will not schedule principal payments in the first six months of the fiscal year.

Annual Review and Determination of Fund Balance Reserve Amounts

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process and amounts of the minimum level of unassigned fund balance in the general fund and the minimum level of available fund balance (for debt service payments) in the debt service fund shall be determined during this process.

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