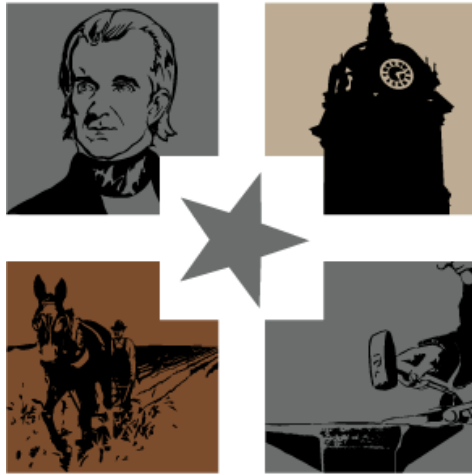


CITY OF COLUMBIA



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# FUND BALANCE POLICY

City of Columbia, Tennessee

## Policy Summary

The City's Fund Balance Policy provides guidance on the establishment and maintenance of fund balance thresholds for the General Fund. This revision establishes a minimum unrestricted fund balance for the General Fund of no less than 33% of annual operating expenditures, i.e., four (4) month's operating expenditures. The policy conforms with best practices recommended by the Government Finance Officers Association of North America.

Amended 12/10/2020 – Res. No. 20-99

# Fund Balance Policy

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## I. PURPOSE

The City of Columbia hereby enacts the following policy in an effort to ensure financial security through the maintenance of a healthy reserve fund that guides the creation, maintenance and use of resources for financial stabilization purposes. The City's primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The City also seeks to maintain the highest possible credit ratings which are dependent, in part, on the City's maintenance of a healthy fund balance.

## II. DEFINITIONS

- A. Fund Balance – The excess assets over liabilities in a governmental fund.
  
- B. Non-Spendable Fund Balance – Amounts that cannot be spent because they are either in a (a) non-spendable form, including items not expected to be converted to cash (i.e. inventories, prepaid amounts, long-term portion of loans and notes receivable and property acquired for resale), or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).
  
- C. Restricted Fund Balance – Amounts constrained to be used for a specific purpose by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
  
- D. Committed Fund Balance – Amounts constrained to specific purposes by the City Council. Amounts classified as committed are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the City Council removes or changes the commitment by taking the same action it employed to impose the commitment.
  
- E. Assigned Fund Balance – Amounts intended to be used by the City for a specific purpose, but are neither restricted nor committed. The intent shall be expressed by the City Council or a designee authorized by the City Council for a specific purpose in accordance with policy established by the City Council. The nature of the actions necessary to remove or modify an assignment is not as rigid as required under a committed fund balance classification.

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F. Unassigned Fund Balance – Amounts available for any purpose (amounts that are not Non-Spendable, Restricted, Committed or Assigned) in the General Fund. This category also provides the resources necessary to meet unexpected expenditure and revenue shortfalls.

## **III. GENERAL POLICIES**

### **A. Policy Statement**

The City has endeavored to limit expenditures to anticipated revenues in order to maintain a balanced budget. The fund balance of the City's General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The City's target is to maintain an unrestricted fund balance of not less than 33% of annual operating expenditures for the fiscal year.

The decision to retain an unrestricted fund balance of not less than 33% of annual operating expenditures stems from the following:

1. The amount provides adequate funding to cover approximately 4 months of operating expenses,
2. The amount provides for the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collection schedule
3. The amount provides the liquidity to respond to contingent liabilities.

### **B. Spending Policy**

For the City's General Fund, it is the City's policy to spend the most restricted dollars before less restricted dollars in the following order:

1. Restricted Fund Balance
2. Committed Fund Balance
3. Assigned Fund Balance
4. Unassigned Fund Balance

This Spending Policy assumes costs are incurred for purposes for which both restricted and unrestricted funds are available.

## **Fund Balance Policy**

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For all other governmental funds other than the General Fund, interest income, if any, will be utilized first followed by restricted, committed and assigned revenues when an expense is incurred for purposes for which both restricted and unrestricted funds are available. Transfers to other funds are considered committed for these purposes.

### **C. Policy Updates/Revisions**

This policy shall be reviewed periodically by Finance & Administration staff and may be amended from time to time per the City Council.