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Fund Balance Policy

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county 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 county 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 CTAS website material.

Sincerely,

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Fund Balance Policy

Reference Number: CTAS-1798

A Fund Balance Policy will assist in the long-term stability of the government finances by establishing an ending fund balance goal of each respective accounting fund. For instance, the Highway Fund is typically made up of state revenues that are transmitted monthly to the county. Thus with this constant consistent revenue stream, the Highway Department has monthly operating cash that often matches monthly operating expenditures. In this example, the Highway Fund may require only an extra month fund balance, or 1/12 of the annual budget could be the fund balance goal. In the case of the General Fund, which is predominately supported by property tax collected mainly in December and February, (a full six and eight months into the fiscal year) a larger fund balance would be needed to support operations until the revenue is received.

In establishing a Fund Balance Policy for the Debt Service Fund, we often recommend that a county have 50 percent to 150 percent of its current appropriation budget. The fund balance is higher in the Debt Service Fund for a number of reasons:

1. Reflects a conservative debt policy to debt rating agencies; therefore, more stability in financial operations and hopefully better interest rate opportunities.
2. Allows for the idle funds to be invested at a steady revenue stream of interest earning. Often interest earnings are annual revenues to the debt service funds.
3. Allows more flexibility in structuring future debt payments by allowing the fund balance to increase and decrease over time to smooth out the debt service tax levy.

You would generally see a county's debt service fund balance begin to increase in anticipation of future capital project and debt, and decrease as existing debt is paid off.

Source URL: *https://www.ctas.tennessee.edu/eli/fund-balance-policy*