

RESOLUTION NO. R2011-28

A RESOLUTION AUTHORIZING THE TOWN MANAGER TO
ADOPT A FUND BALANCE POLICY.

WHEREAS, the Governmental Accounting Standards Board (GASB) made effective GASB statement number 54 for the fiscal year beginning July 1, 2010; and

WHEREAS, the Municipal Technical Advisory Service advises the creation of a fund balance policy commensurate with the new statement to facilitate financial statement footnote disclosure; and

WHEREAS, the Town Manager recommends that the Town Council adopt the attached Fund Balance Policy;

NOW, THEREFORE, BE IT RESOLVED by the Town Council of the Town of Signal Mountain, County of Hamilton, Tennessee that the Town Manager is authorized to adopt the attached fund balance policy as the official Fund Balance Policy of the Town of Signal Mountain.



MAYOR

4/11/11

DATE



RECORDER

4/11/11

DATE

DRAFT – 3-24-11

**Town of Signal Mountain
Fund Balance Policy**

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget. The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the City to be in a strong fiscal position that will allow for better position to weather negative economic trends.

The Fund Balance consists of five categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

Nonspendable Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and prepaids) or funds that legally or contractually must be maintained intact.

Restricted Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance consists of funds that are set aside for a specific purpose by the city's highest level of decision making authority (council). Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

Assigned Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the city's highest level of decision making authority or a body or official that has been given the authority to assign funds. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned Fund Balance consists of excess funds that have not be classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

Fund Balance Reporting

It is the responsibility of the Finance Director to report all fund balances appropriately in the Town's Financial Statements. These balances must also be reported to the Town Council within two months of the end of the fiscal year.

Order of Use of Restricted and Unrestricted Funds

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.

When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last.

Authority to Commit Funds

The Town Council has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires, at a minimum, the passage of a resolution by a simple majority vote. An ordinance may also be used. Commitment must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available. In the event the Council wishes to lift the committed status of funds so that they may be used for general purposes, a formal action equal to that which originally committed the funds must be taken (i.e. – resolution for resolution; ordinance for ordinance).

Stabilization Funds

A Financial Stabilization Account may be established for the purpose of providing funds for an urgent event that affects the safety of the general public (e.g. flood, tornado, etc.). Should the Council at any time decide to create such an account, its minimum level should be 5% of General Fund expenditures. The recognition of an urgent event must be established by the Town Council or their designee (i.e. Town Manager). If established by the Town Manager, the specific urgent event must be reported to the governing body at their next meeting. A budget amendment must be approved by the Town Council. In the event that the balance drops below the established minimum level, the Town Council's governing body will develop a plan to replenish the Financial Stabilization Account balance to the established minimum level within four years.

Authority to Assign Funds

Upon passage of the Fund Balance Policy, authority is given to the Town Manager to assign funds for specific purposes in an amount not to exceed \$10,000 per purpose or in total not to exceed \$100,000. Any funds set aside as Assigned Fund Balance must be reported to the Town Council at their next regular meeting and recorded in the minutes. The governing body has the authority to remove or change the assignment of the funds with a simple majority vote.

The Town Council has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

Upon passage of a budget ordinance where fund balance is used as a source to balance the budget, the Finance Director shall record the amount as Assigned Fund Balance.

Unassigned Fund Balance

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

Unassigned Fund Balance may be accessed in the event of unexpected expenditures up to the minimum established level upon approval of a budget amendment by the Town Council. In the event of projected revenue shortfalls, it is the responsibility of the Town Manager to report the projections to the Council on a quarterly basis and the report shall be recorded in the minutes.

The Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 35% of General Fund expenditures. In the event that the balance drops below the established minimum level, the Town Council will develop a plan to replenish the fund balance to the established minimum level within two years.