Town of Galen

Fund Balance Policy

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that adequate financial resources are maintained for unforeseen circumstances and events such as revenue shortfalls or unanticipated expenditures. It is also intended to preserve flexibility throughout the fiscal year to make adjustments in funding for expenditures 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 in establishing and maintaining a Fund Balance Policy is for the town to be in a strong fiscal position that will allow it to weather negative economic trends.

The Fund Balance consists of five categories:

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

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

Assigned – consists of funds that are set aside with the intent to be used for a specific purpose by the governing board. Assigned funds cannot cause a deficit in unassigned fund balance.

Unassigned – consists of excess funds that have been classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpended expenditures and revenue shortfalls.

The Town shall strive to attain and maintain in each of the Funds at fiscal year-end the Minimum Fund Balance of 25% to 33% of the adopted budgeted appropriations including inter-fund transfers.

The Town considers restricted fund balances to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Town considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

Any budget revision that will result in the Unassigned Fund Balance dropping below the minimum level of 25% will require the approval of 2/3 vote of the town's governing board and will require the town's governing board to develop a plan to replenish the fund balance to the established minimum level within two years.

This policy is in place to provide a measure of protection for the Town against unforeseen circumstances and to comply with Governmental Accounting Standards Board (GASB) Statement No. 54. No other policy or procedure supersedes the authority and provisions of this policy.