

# Reserve Fund Policy

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# **Reserve Fund Policy**

## *From Boredom to Excitement!*



*Henderson Co. Public Library*

# *Introductions & Disclaimer:*

*This program is for informational purposes only and does not constitute legal advice. For legal advice, please consult your library's attorney.*

## *Reserve Funds:*

The total of all library money remaining at the end of the fiscal year.

ALL money in all types of accounts--checking, savings, CDs, etc.

Reserve funds don't need to be kept "together" and may be distributed across a variety of accounts.



## *Reserve Funds:*

There is no requirement to spend all money by the end of the year, and for the reasons we'll discuss, it is prudent financial planning to build a reasonable reserve fund.

Remember that library funds are raised to provide library service--not to accumulate excessive reserve funds.

# *Reserve Fund Policy:*

Having a sound reserve fund policy is important for a variety of reasons:

- It's good financial planning.
- Citizens & politicians can and will ask about why the library has money left on June 30th. Having a well-reasoned policy enables you to clearly explain the purpose of reserve funds.
- A sound reserve policy can lower borrowing costs.

*Adopt & follow your policy!*

# *Reserve Fund Policy:*

Typical Elements:

- Operational
- Emergency
- Capital / Construction

# *Operational Reserve Fund:*

Bridges funding gap between start of fiscal year and time when revenues are expected in December

Typically calculated in terms of \_\_\_ months of operating expenditures.



## *Operational Reserve Fund:*

By statute, the library's fiscal year begins July 1, with the bulk of the Library's revenues expected to arrive six months later in December. To bridge this funding gap, the Board of Trustees will ensure that this fund contains an operational reserve at the end of each fiscal year in an amount capable of sustaining at least \_\_\_\_ months of operating expenditures.

# *Emergency Reserve Fund :*

Money available for unforeseen expenses like roof replacement, HVAC replacement, etc.

Typically stated as a set dollar amount.

## *Emergency Reserve Fund :*

The Emergency Reserve will be used for unforeseen emergencies such as unusually late tax collection, replacement or major repair to systems such as roof or HVAC, or any other circumstance that would hinder normal operation of the Library. The Board of Trustees will keep \$\_\_\_\_\_ in this fund. This fund amount should be evaluated annually to confirm that it is still adequate to deal with foreseeable emergencies.



# *Capital / Construction Reserve Fund:*

Long-term savings to prepare for planned renovation, expansion, or replacement of library facilities.

Can be defined as an amount equal to \_\_\_% of total annual expenditures added to this reserve each year.

If a large capital construction project moves into an active planning process, this policy will be updated to reflect appropriate financial preparation for that project

*This should not be used to accumulate funds beyond those projected for specific projects at some specific time in the future.*

# *Capital / Construction Reserve Fund:*

The Capital Facility Reserve will be used to support long-term capital improvements including major furniture replacement, vehicle purchase or replacement, or construction projects forecasted to occur over the next ten years. The Board of Trustees may consult with financial advisors, architects, or other consultants to determine capital needs over the ten-year period. This fund may also be used to pay off bonds issued for construction and land acquisition projects.

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# *Capital / Construction Reserve Fund:*

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Money will be added to this fund as they are available after the other funds have met the targeted goals listed above. An amount equal to \_\_\_\_% of total annual expenditures will be added to the Capital Facility reserve each year. If a large capital construction project moves into an active planning process, this policy will be updated to reflect appropriate financial preparation for that project.



## *Other Types:*

Other elements could include

- Technology Replacement
- Vehicle Replacement
- Pension Fund Liability

## *Evaluation:*

Once reserve targets are met, total library income should be examined with a qualified financial planner to project ongoing needs. If income is projected to regularly exceed what is required for expenditures & the reserve goals enumerated above, the board should then consider a plan to adjust tax rates over time to more accurately match library income with needs.

# *Budgeting:*

- Libraries now need to evaluate their actual plans & needs and target income accordingly.
- Libraries need to target income to programmatic needs.
- Libraries should be careful not to lower rates without careful income & programmatic projections



# *Budgeting & Debt:*

Early pay-off of current debts may not be helpful in maintaining a balance of ongoing income and financing for capital construction projects.

# *Questions?*



*Shelby Co. Public Library*



# *Thanks for Attending!*

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