

# Mid-Hudson Library System - Operating Reserve Fund<sup>1</sup> Policy

Effective Date: 12/6/2014

Revised Date: 9/14/2016

Proposed Revision Highlighted **YELLOW**

## I. Background

The Mid-Hudson Library System (MHLS) normally receives the payment of State Aid to Public Library Systems from the State of New York seven (7) months after the start of the MHLS fiscal year. Additionally, MHLS has experienced delays in payment<sup>2</sup> beyond the seven (7) month period. This payment schedule and delays have resulted in MHLS conducting an assessment of the need to maintain an operating reserve fund which allows MHLS and MHLS members to address delayed payments with a minimum disruption to MHLS services.

## II. Philosophy

The establishment and maintenance of a funded MHLS Board Designated Operating Reserve Fund [hereinafter "Reserve Fund"] is deemed a high priority by the MHLS Board of Trustees in order to ensure continuity of services to member libraries. The Reserve Fund will enable MHLS to:

- A. Provide services to members without interruption;
- B. Maintain continuity in business operations and practices;
- C. Manage cash flow;
- D. Prepay vendor contracts to take advantage of multi-year discounts;
- E. Minimize the need for borrowing working capital; and
- F. Meet commitments, obligations or other contingencies.

## III. Policy

The purpose of this policy is to establish and maintain a Reserve Fund, unencumbered and uncommitted, at a level relative to the annual program funding and the costs of operating and maintaining the organization. The Reserve Fund is to serve a dynamic role and is available to be utilized as determined by the MHLS Board of Trustees.

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<sup>1</sup> In nonprofit accounting, an "operating reserve" is the unrestricted cash on hand available to sustain an organization, and nonprofit boards usually specify a target of maintaining a specific number of months of operating cash or a percentage of their annual income.

<sup>2</sup> In 2010, payments were delayed for 12 months.

#### IV. Definitions

- A. Board Designated Operating Reserve Fund - Included in the amount reported in the Unassigned Fund Balance section of the MHLS Audit Balance Sheet.
- B. Costs of Funding Services and Operations - MHLS costs for all services, business operations and practices. For the purpose of calculating the total cost of services and operations, the following **funds expenses** are excluded: **(1) Library Grants including:** Central Library Development Aid, Central Library Book Aid, Local Library Services Aid, and other similar library designated funds (e.g., town/county funds to member libraries); **(2) Construction/Capital Projects.**

#### V. Strategies and Procedures

- A. The Reserve Fund shall be accounted for separate and apart from the Board Designated Contingency Reserve Fund, the MHLS Capital Facilities Fund, and the MHLS Members Capital Fund.
- B. The MHLS Board of Trustees will have the responsibility for ensuring the management of Reserve Fund assets in compliance with the laws, rules, and regulations of the State of New York.
- C. The Reserve Fund goal will be to achieve and maintain no greater than eight (8) months (66%) of the Costs of Funding Services and Operations as defined in Section IV.

#### VI. Sources

Assets for the Reserve Fund may come from any MHLS revenues, as determined by the MHLS Board of Trustees, except the MHLS Members Capital Fund.

#### VII. Uses

- A. The Reserve Fund is used to fund MHLS expenses as identified in the MHLS Board approved budget and fiscal policies.
- B. The MHLS Board of Trustees may also designate the use of the Operating Reserve Fund to fund:
  - i. An increased allocation to a service(s), project(s), and/or operation/administration;
  - ii. Unexpected organization needs; and/or
  - iii. Needs resulting from an emergency and/or disaster.

#### VIII. Governance

The procedure for approving use of the Reserve Funds, will follow the *Procedures for Budget Adjustments* as adopted by the MHLS Board. These procedures include:

- A. Any single budget adjustment to revenue or expense in the amount of more than \$10,000 must be approved by the MHLS Board of Trustees.
- B. Any single budget adjustment to revenue or expense in the amount of \$10,000 or less may be made by the MHLS Executive Director with the consent of the MHLS Finance/Business Office Manager.
- C. All adjustments to the budget will be reflected in the Monthly Financial Report provided to and approved by the MHLS Board of Trustees.

IX. Maintenance

- A. The status of the Reserve Fund will be calculated mid-year and at the end of each fiscal year based upon the MHLS budget approved by the MHLS Board of Trustees.
- B. Annually, the MHLS Finance Committee will consider the adequacy of the Reserve Fund amount and will recommend to the MHLS Board any changes as deemed necessary.

X. Policy Review

This policy will be reviewed annually by the MHLS Finance Committee or sooner if conditions warrant. Any changes thereto will be forwarded by the MHLS Finance Committee to the MHLS Board of Trustees for consideration and action by the Board.