

Mid-Hudson Library System - Operating Contingency Fund

Effective Date: 12/6/2014

Revised Date: 9/14/2016

Proposed Revision Highlighted **YELLOW**

I. Background

MHLS has had projects approved in the budget, at predetermined amounts, however, has encountered unpredictable changes in the project¹, resulting in additional costs. Additionally, MHLS has had projects² under development but not ready for a line item adoption at the time the MHLS Board has approved a new fiscal year budget. Also, MHLS has benefited from undertaking projects³ during a fiscal year that were not known at the time the MHLS Board approved a fiscal year budget. The need for an operating contingency fund has been demonstrated as a helpful management tool that financially prepares MHLS for conditions unknown at the time of a new fiscal year budget approval, such as cost changes in approved projects and opportunity to implement projects not included in approved budget.

II. Philosophy

The establishment and maintenance of a funded MHLS Board Designated Operating Contingency Fund [hereinafter "Contingency Fund"] is deemed a high priority by the Mid-Hudson Library System (MHLS) Board of Trustees in order to have the capacity to fund services, projects, and/or operations not budgeted at the time the MHLS Board adopts a new annual budget. The Contingency Fund will also enable MHLS to undertake strategic activities and projects not funded at the time of budget adoption.

III. Policy

The purpose of this policy is to establish and maintain a Contingency Fund, unencumbered and uncommitted, at a level relative to allow MHLS to cover unexpected costs and undertake strategic activities/projects not funded in the MHLS

¹ In 2014, MHLS undertook a Window Replacement Project. With the implement of the project, the presence of asbestos in window caulk and glazing was discovered, resulting in an increased project cost. The increase project cost was not included in the approved 2014 budget.

² In 2014, MHLS was able to implement an Innovative's 2013 price quote if MHLS committed to funding Encore by January 23, 2014. The Encore quoted price for a pre January 23 commitment was \$42,875 per year for 3 years plus a onetime \$2,500 setup fee. After January 23, the Encore price is increased to \$54,850 for year 1, \$55,309 for year 2, and \$55,777 for year 3. Encore was not an approved line item in the 2014 budget.

³ In 2014, MHLS was able to proceed with architectural services in support of the Board's stated goal for the 3rd floor to "become available for meetings, small-group training and additional office space" and the directions for the Board's Facilities Committee to explore renovation for a possible State construction grant. These architectural services were not included in the approved 2014 budget.

annual budget at the time of Board adoption.

IV. Definitions

- A. Board Designated Operating Contingency 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 Contingency Fund shall be accounted for separate and apart from Board Designated Operating Reserve Funds, the MHLS Capital Funds, and the MHLS Members Capital Fund.
- B. The MHLS Board of Trustees will have the responsibility for ensuring the management of the Contingency Fund assets is in compliance with the laws, rules, and regulations of the State of New York.
- C. The Contingency Fund goal will be to achieve and annually maintain in reserve ten (10%) of Program Funding and Operating Costs as defined in Section III.

VI. Sources

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

VII. Uses

The Contingency Fund may support:

- A. Additional costs incurred for projects approved in the budget at predetermined approved amounts; and/or
- B. Projects under development but not ready for line item adoption at the time the MHLS Board has approved a new fiscal year line item budget; and/or
- C. Projects during a fiscal year that were not known at the time the MHLS Board approved a fiscal year budget; and/or
- D. Any MHLS cost the MHLS Board determines appropriate for funding with Contingency Funds.

VIII. Governance

Approving the use of Contingency 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

- D. The status of the Contingency Fund will be calculated at the end of each fiscal year and at mid-year based upon the MHLS budget approved by the MHLS Board of Trustees.
- E. The MHLS Finance Committee will consider the adequacy of the Contingency 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 approval by the Board.