



# Reserve Funds

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## PURPOSE/RATIONALE

To implement financial standards for the Library that will assure fiscal viability through the establishment and maintenance of reserve funds for current operations, capital replacement, and contingencies.

## SCOPE/LIMITS

This policy applies to all reserve funds of the Library. In accordance with Public Sector Accounting Board (PSAB) guidelines, externally restricted funds held by the Library are classified as deferred revenue and consequently, not considered a reserve fund for the purposes of this policy. The Chief Executive Officer will ensure that any externally restricted funds will be fully documented in terms of purpose of fund, including procedures and plans for spending and that such funds will be regularly reported to the Finance Committee.

## DEFINITIONS

Surplus – Annual operating surplus resulting from revenues exceeding expenditures in a year.  
Reserves - Accumulated funds on the balance sheet, either as a result of a surplus or from other operating funds set aside for a specific purpose.

## POLICY

- The Library shall hold the following reserve funds
  - Operating Reserve
  - Replacement Reserve
  - Contingency Reserve
- The reserve funds will not be shown in the budget, but will be held in separate general ledger balance sheet accounts with equivalent funds invested in either Library bank accounts and/or Library investment accounts. These funds will be externally audited every year as part of the Library's regular financial audit.



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## **FUND BALANCES**

The goal of the Board is to maintain the reserve fund balances as follows:

- Operating Reserve
  - The Board annually reserves funds at the end of the fiscal year to meet obligations for library materials ordered but not yet received or paid for.
  - Any operating surplus realized in a fiscal year automatically transfers into the operating reserve. The Board shall determine the use of such funds by March 31st of the subsequent year.
  - Unrestricted Endowment Funds received from The Victoria Foundation as expendable income earned on funds endowed and invested with the Foundation shall be recorded in the Operating Reserve until expended.
  
- Replacement Reserve

The Board shall forecast the funds required to achieve the replacement reserve plan estimated costs for at least ten years into the future, and budget for an annual transfer from operations, an amount sufficient to provide those funds over the period forecast. Additional funds from donations, sale of assets, or appropriation of surplus, may be paid into the reserve from time to time.
  
- Contingency Reserve

It is the policy of the Board to provide for unanticipated expenditures or shortfalls of revenue in the operating budget through the Contingency Reserve. Monies, as available, may be paid into the reserve. The balance of the reserve shall be at least 1% of the current year's operating budget. If this goal is not met, the Finance Manager will budget for an annual transfer from operations sufficient to achieve the goal within five (5) years.

The annual budget and five-year financial plan approved by the Board shall include a statement of the current amount in the reserve funds and the anticipated interest earnings over the fiscal year. The budget will include lines for anticipated net transfers between the reserve funds and the operating budget.

The reserve funds shall be credited at the end of each fiscal year with any interest earned on the fund balances.

## **FUND EXPENDITURES**

Expenditures from the reserves, and transfers between reserves and operations may only be made at the discretion of the Board, and only for the purposes outlined below:



- Operating Reserve
  - Funds reserved at the end of the prior fiscal year to meet obligations for library materials ordered but not yet received or paid for will be fully expended in the current year to meet such obligations.
  - The Board shall determine the use of surplus operating funds from the prior fiscal year by March 31st of the subsequent year. The options will be to appropriate all or part of the fund balance to another reserve fund or to approve transfer of funds to operating revenue of a specific year or years.
  - The use of unrestricted endowment funds will be determined by the Endowment Fund Management Board by June 30th of the subsequent year in which the funds are received.
  
- Replacement Reserve

To provide for the substantial maintenance, upgrading or replacement of capital items including, but not limited to vehicles, furniture, equipment, floor coverings, and interior finishes, over and above regular maintenance, upgrades or replacements provided for in the annual operating budget and to provide for any interior alterations, additions and renovations, including any feasibility studies and cost estimates required.
  
- Contingency Reserve

To provide for unanticipated expenditures or shortfalls of revenue in operations that include, but are not limited to, loss of major revenue source, unanticipated operating expenditures or increases in service delivery costs that cannot be financed through changes in the regular budget lines.

Refer to [Policy 3.5 – Investments](#) for guidelines on investment of reserve funds.

<b>Approved by the Greater Victoria Public Library Board:</b>	<b>November 18, 2008</b>
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