Responses to Fund Balance Question from Listserv, Michlib-L March 2015

Our budget director has advised us to plan to have a fund balance that is about 20-25% of our current year expenditures. (Used to be 15% before the economy tanked.) At present Waterford's fund balance is quite a bit more than this as we had saved up a substantial amount to cover about 6-9 months of expenditures prior to our last millage renewal. Just wanted to have funds set aside to pay off obligations to vendors in case the renewal didn't pass.   
  
Hope this is helpful.   
Joan  
Joan M. Rogers, MSLS  
Library Director

**Great question, Jaema, and one that we've struggled with as well (Highland** Library.) I'd be interested in what you hear.

We have been using fund balance the last few years to help balance the budget (budget stabilization) and have been trying to project how long we can do this while we wait for tax values to improve again (decline has stopped and tax collections have started to slightly increase.) (Fingers crossed.) Needing to remember to keep reserve for potential legal expenses, employee benefits (someone who leaves employment but is due payment for accrued unused sick time or outstanding vacation time), capital projects/major repair etc.

I'd scrounged around looking at other libraries' annual reports, searching out fund balance policies as well as articles on fund balance for non-profits.

There's so much variation!

Often there's a % of annual expenditures recommended.

I realized as I compared libraries that some that look like they had a low fund reserve actually had more funds in reserve than initially apparent to me because they were had more than one *designated* funds/reserve accounts.

Here's some articles that I found helpful in grappling with my understanding of the question:

<http://www.grantthornton.com/staticfiles/GTCom/Not-for-profit%20organizations/NotForProfit%20files/NFP_Sufficient-Reserves_WP.pdf>

<https://nonprofitsassistancefund.org/resources/item/nonprofit-operating-reserves-policy-examples>

<http://www.ipspr.sc.edu/publication/Municipal_Reserves.htm>

Finally, this article (link below) was included in a handbook from a TLN workshop titled "The Librarian's Financial Fundamentals" in November 1996, offered by Plante Moran. (Think there's been some GASB changes in definitions of categories of reserve since then, but it's an overview.)

<http://budgetfinance.lgawiki.wikispaces.net/file/view/GFOA+Research+Bulletin+Fund+Balance+1990.pdf>

Hope this helps! And thanks for asking a question that had been on my mind, too!

 --- jude halloran, Highland Library, 248-887-2218 ext. 110

[www.highlandlibrary.info](http://www.highlandlibrary.info/)

**I asked my former deputy director in Sacramento because she handles a very** large budget and contingency.  Pls see her comments below.  Of course, this may only be true in Sacramento CA.  What kind of response have you received?  
  
Thanks,  
Rebecca Higgerson, Brandon Twp

Fund balance is a local decision and is typically determined by needed cash flow to pay bills and make payroll during some period of a year. For SPL it is 6 months. The rationale for that is to cover us between tax payments. The determination can be made by an auditor or accountant. We also hold a reserve for "economic uncertainty", and this is codified in our finance plan approved by the Board, as well as the JPA agreement.  
Does this help?  
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Denise M. Davis  
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**This is information that was provided by our auditor. There is a minimum**   
fund balance that is considered "healthy" and I believe it is dependent   
on your expenditures.  
So, for our $1.6 million expenditures, we were told $350,000.  
  
However, we have a different approach. Our fiscal year is July 1-June   
30. Our tax receipts come in December-February. We require a minimum of   
seven months' operating expenditures--the time from start of fiscal   
year, July 1, through bulk of tax collection, January 30--to have in the   
fund balance. This is just operating--it's separate for us from   
Capital/Improvement or Gift. Then I also have a set-aside to cover the   
wages of replacement staff for our full-timers who may have to take   
their full allotment of Family & Medical Leave Act time. We would pay   
the staffer and the replacement, so I need some kind of bank.  
For our budget, we have a "set-aside" or minimum balance of at least $1   
million.  
Ceci Marlow, Cromaine

**This is very subjective.  You have to balance how much to keep on hand**  
for emergencies with how much your community will accept.  Baldwin lost  
a millage campaign a few years ago because the perception was that they  
didn't need the millage when they had a large amount sitting in the fund  
balance.    
We have about $5,000,000 - more than I ever dreamed a library I served  
would have.  But our current budget shows us using almost $1,000,000 of  
that.  I would suggest trying to save a minimum of enough funds to be  
able to run the library for 6 months without any other income.  That  
should never happen, but could help stave off closing if a disruption of  
funding occurred.  Now that things are starting to improve, I am hoping  
we can use our fund balance for more mundane things like replacing  
carpeting or roofs.   
That is also a key.  If you can show a specific project or need for  
which you are saving...it makes building a fund balance much more  
defendable.  For you, it might be purchasing property upon which to  
build a new library; or if you have the land, to expand or build.  It  
could be to refurbish or refurnish.  Usually you would spend fund  
balance funds on something outside of the day-to-day expenses.    
Good Luck,  
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**This is an interesting question as we come out of the recent economic** downturn.  In general, my comfort level is 40% of annual operating budget as an UNRESTRICTED reserve.  Fund balances can grow quite large as RESTRICTED reserves may be designated for future capital improvements that may be costly like new roofs, parking lots, security systems (you get the idea).  
  
Other rational for a large RESTRICTED reserve may be for OPEB (Other Post Employee Benefits) like dental and health.  There is a new change from GASB (Government Accounting Standards Board) and their GAAP (Generally Accepted Accounting Practices) where annual audits will include OPEB liability.  This is a big change.  There are other vehicles for OPEB liability savings that you may want to discuss with your financial expert/bank (like a VEBA trust).  
  
Ideas if you think you may have too big of a fund balance:  
Allocate (or restrict some funds) toward OPEB  
If your retirement plan is not 100% funded you could put money toward that unfunded liability.  
Allocate (or restrict some funds) toward improvements.  
  
I would not recommend increasing service hours or increasing library services above what you are bringing in annually.  This type of action is not sustainable and will lead to trouble when you need to cut it back.  
  
Some challenges of managing large fund balances are keeping all of the funds FDIC insured, employee perception that you can afford large raises, public perception that you are not providing the level of service they are paying for.  
Just a few thoughts off the top of my head this morning.  
:o)  
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This is a question we ask our auditors every year. They tell us between   
20% and 25% of our annual budget is excellent.  
Julie Herrin  
Northville

**I asked this same question when I was planning for our recent library** millage.  Our auditor’s answer was “it depends.”  When I was at the Wixom Public Library, the fund balance was small, and the city owned our building.  The Board aimed to have only 15% of the annual budget in fund balance.  Here at RTDL our tax is not collected until the last quarter of our fiscal year, so we have to have enough money in fund balance to “float” us until that time.  We have a large building and need a sizeable rainy day fund in case something unexpected happens.  If you have capital needs (building repairs or construction) in your future, or poor physical infrastructure, your needs may be higher still.

I would suggest talking to your auditors and reviewing the needs you have, then making an assessment with your Board.  Good luck!  
  
Lisa

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**We have been told by our auditor to have at least six months of operating**  
set aside as a fund balance. It takes years to accomplish that but we have  
done it. AT the end of the year we have been fortunate enough to have more  
money than we spent in operating. That money has been accumulated over the  
years. We do not have a savings account.  
  
If there are other questions please feel free to ask.  
  
Barbara Bartel  
West Iron District Library

**It all depends on your library's total financial situation.  There is a**   
general rule of thumb of 30% of your annual operating fund, but there are   
several other factors to consider.  What is the state of your pension   
liabilities?  Do you have a capital improvement plan & long-term facility   
maintenance plan, technology replacement plan and/or other long term plans   
that might obligate part of your fund balance?  For example, let's say you   
have a $1 million operating budget.  The general rule of thumb is a   
unobligated balance of $300,000.  But let's say your facility is 20 years   
old, and most facility life-cycle components are between 20-40 years old.   
You could start by saying in 10 years, I'll need a new roof for $100,000,   
new carpeting for $40,000, new lighting for $20,000 and so on.  So that's   
$160,000 in expenses that you will need in 10 years, so during that 10   
years, you need to come up with a plan that will have $160k ready for those   
known updates.  When you start breaking down the age and condition of all   
the major components in a facility, these costs add up quickly and   
substantially. Then there are the pension obligations that are typically   
underfunded.  When people start questioning large fund balances, they see a   
large amount of money not being used.  The more reasonable detail you can   
provide on how this money could/will be used, the larger the fund balance   
you can justify.  Ultimately this is about responsibility in that if you   
have resources, you can choose a response to a situation.  If you are broke,   
you can't.  This is especially true at a time when we are seeing a large   
erosion of the millage tax base and other governmental revenue sources that   
will take a long time to build up.  The tax tribunal has a backlog of 14,000   
challenges to property tax valuations.  Even if only a fraction of these are   
won by the challengers, it means any revenue growth is going to be extremely   
small for most communities for a long period of time.   Hope this helps.  
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Our city finance dept. recommends 17% of the budget for fund balance.  
  
Patty

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**Most auditors will say 15% to 25% of your annual operating budget.  That is** so you have money to carry you have cash flow problems.  Ask you auditor their recommendation.    
  
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I asked the same question at a state workshop and the reply from a  
professional auditor was 20 to 25 %.  
  
Skip Schmidt - Director  
St. Ignace Public Library

**We struggle with this as well at times.  I know that the Public Library** Financial Management Guide (<http://www.michigan.gov/libraryofmichigan/0,2351,7-160-18668_69405_69408---,00.html),> suggests unassigned fund balance of at least two months operating revenues or expenditures.  We currently have a bit over 1 month in unassigned ($105,000).  We also have funds assigned for Building Improvements, Technology Improvements, Collection Development, Staff Development, and Special Youth Projects.  In addition, we have a significant amount assigned for Tax Appeals (in recent years, we had to pay back to GM Proving Ground about $75,000 and there are further appeals pending).  We will probably reduce the assigned amount in that area this year and move it into Tech or Building Improvements.  Hope this helps.

Tina L. Hatch, Director   
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**You will get a lot of different ideas on this one.    Your fund balance** should always include future liabilities.  Much like a person’s savings account; you want to put aside enough money to get by for either three or six months of current operating expenses.  This kind of reserve also will be important for unexpected losses of revenue, i.e. penal fines disappear and you need a year covered to make it to the next budget.

Too much is always equal to or over your current budget revenue.  That does not look good to voters.

Good luck.

Richard Schneider

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I want at least six months of operating funds.   
  
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A few years ago we were facing major financial difficulties.  Our auditor  
and the county treasurer recommended having at least six months operating  
expense on hand (savings). We are getting ready to become our own financial  
entity, and will be following that advice.  
  
Amy Knepp, Director  
Oscoda County Library

We maintain a fund balance amount that is made of up of the following two items:  
  
One year of operations (this amount is based on the most recent expense budget).  We used to maintain two years of operations, but the recession rolled us back to one.  We’re working on getting another year of funding put back into the fund balance.  
+  
$400,000 for building operations.  This is in case we need to replace something in a hurry (HVAC system, roof leaks, etc.).  We don't want to have to worry about launching a bond issue for  building maintenance.  
  
Hope this helps!  
  
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Ideally, I would love to have a full year's operating expenses in the fund balance, but alas I do not.  I am a city library and the guidelines from the city council for fund balances is 15%.  Mine is higher and I hope to grow it.

The library I came from in Ohio (I know--land of milk and honey for libraries) had two years of operating expenses in their fund balance. I know I would breathe easier if that were the case at East Lansing.

Thanks, Kristin

Kristin Shelley, Director

East Lansing Public Library

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We are currently working on a fund balance policy per the advice of our auditors.  I looked at 4 or 5 policies of libraries around the state and they recommend a fund balance of anywhere from 20 - 35% of the general fund expenditures or other libraries recommend a 4 -6 month reserve.  We haven't decided on the percentage but I am leaning toward 35%.  
  
Teresa  
Franklin

At one time our fund balance was approaching over 50% of our annual budget and the auditor said it shouldn't be that high.  Currently it is @ 1/3 our annual budget.  If you were using it as a reserve fund for a specific large project I think it could be termed a sinking fund, since you had a goal in mind, and that would be fine. Myla Stuart