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# Reserve Funds in Public Libraries

*How can public libraries establish and utilize reserve funds according to New York State laws and regulations?*

## Overview

Reserve funds are critical tools that help public libraries manage cash flow, plan for future expenses, and respond to unexpected needs. Controlled by the library board of trustees, these funds—such as undesignated, capital, or special purpose reserves—must be clearly defined, properly authorized, and used only for their intended purposes. Establishing and managing reserve funds through clear policies and board action demonstrates strong financial stewardship and ensures the long-term stability of library services.

## Introduction

Public libraries have a fiduciary responsibility to properly manage and protect public funds. This includes the establishment and management of reserve funds, which serve as a critical financial planning tool for library boards. Reserve funds, also referred to as surplus funds or fund balance, represent moneys accumulated and carried over from year to year that enable libraries to plan for future expenses, manage cash flow, and prepare for unforeseen circumstances.

The proper management of reserve funds requires library boards to balance fiscal responsibility with the obligation to use public funds effectively for current service needs. Library trustees must understand the legal framework governing reserve funds, establish appropriate policies, and ensure transparency in their financial planning processes.

## Overview of Library Reserve Funds

Library reserve funds represent accumulated moneys carried over from year to year. These funds can include:

1. **Undesignated fund balance (Cash Flow)** – Maintained to meet the library's cash flow requirements before receiving tax revenue
2. **Special purpose funds** – Established by the board for specific accounting and planning purposes

The creation and management of reserve funds are primarily under the control of the library board of trustees, who must act as responsible stewards of public resources. Properly established reserve funds demonstrate fiscal responsibility and forward-thinking financial management.

## Purpose of Reserve Funds

Reserve funds serve several important purposes for public libraries:

- **Cash flow management** – Meeting the library's operational needs prior to the receipt of tax revenue
- **Financial stability** – Serving as a fund to address unexpected expenses
- **Grant opportunities** – Providing advance or matching funds when applying for grants
- **Capital improvements** – Accumulating funds for building acquisition, construction, or major renovations
- **Risk management** – Preparing for potential financial crises or claims
- **Legal protection** – Creating accessible funds for trustee or employee indemnification and library defense
- **Revenue fluctuation** – Bridging any reductions in tax collections

## Examples of Reserve Funds

Libraries in New York can establish several different types of reserve funds, each with specific purposes and restrictions:

1. **Undesignated Fund or Fund Balance (Cash Flow):** This is a common fund maintained to meet the library's cash flow requirements before receiving taxes.
2. **Capital Fund:** This is a separate account established for special one-time, unusual, and usually high-cost activities such as construction, renovation, or major equipment purchases. End-of-year surplus from the operating fund is often transferred into this fund for future use.
3. **Endowment Fund:** This fund exists independently of the operating fund and its purpose is to generate supplemental revenue for the library. These funds are often designated for specific purposes. Endowment funds held by public libraries must adhere to specific investment protocols found in General Municipal Law.
4. **Other Special Purpose Funds:** Boards may establish these funds for accounting and planning purposes. Examples include: accumulated sick and vacation benefits; unemployment claims; post-employment benefits; technology fund; or emergency fund.

Establishing and maintaining reserve funds shows proper financial stewardship for the library.

## Establishing Reserve Funds

To establish proper reserve funds, library boards should:

1. **Identify needs** – Conduct a thorough assessment of current and future financial needs

2. **Select appropriate fund type** – Choose the type of reserve fund that aligns with identified needs
3. **Determine funding level** – Establish reasonable funding targets based on projected costs
4. **Create a formal policy** – Develop and adopt a comprehensive Reserve Funds policy
5. **Pass required resolution** – Formally establish the fund through board resolution at a public meeting
6. **Plan for funding** – Incorporate reserve fund contributions into annual budgets

## **Reserve Fund Management Requirements**

The management and use of reserve funds must adhere to specific requirements:

- Recent OSC audits have questioned reserves **in excess of the library's annual budget**
- Each fund must be clearly defined in the library's Reserve Funds policy
- Reserve funds must be identified in the library's annual audit
- The purpose of each fund should be understood by every trustee
- Amounts to be placed in reserve funds should be included in the annual budget
- There should be justification, based in reality, for all reserve funds
- The amounts in reserve funds should be clearly justifiable with a rational relationship between the fund amount and its identified purpose
- Formal board approval at an open meeting is required to transfer moneys into and out of reserve funds
- While reserve funds are prudent, libraries should not accumulate excessive amounts without clear justification

## **Fiscal Autonomy of Public Libraries**

It's important to understand that public libraries are, for most purposes, fiscally autonomous from their sponsoring municipality or district. Key points include:

- Ultimate control over library funds, including surplus funds, is vested in the library board of trustees
- Library fund moneys remain the property of the library, and any surplus does not revert to the general fund of the sponsoring municipality or district
- Even if the municipal treasurer serves as custodian of the funds, the library board maintains authority over their use
- A well-documented Reserve Funds policy strengthens the library's position to maintain control of accumulated funds

## **Funding Sources for Reserves**

Reserve funds can be built from various sources:

- Surplus funds from library operations
- Tax revenue and other public funding sources

- Private sources such as gifts, donations, and bequests

## **Appropriate Use of Reserve Funds**

The expenditure of reserve funds must adhere to the purposes specified when the fund was established. Key considerations include:

- Funds should be used only for their designated purpose
- Expenditures should be approved through formal board action
- Records of all reserve fund transactions should be maintained
- Annual reporting should include details on reserve fund activity

## **Accounting Practices for Reserve Funds**

Proper accounting practices for reserve funds include:

- Maintaining detailed records for each reserve fund
- Tracking the source of funds, authorized uses, and fund balance
- Ensuring transparent reporting in financial statements
- Including reserve fund planning in budget development
- Regular review of fund balances and needs

## **Investing Reserve Funds**

Public libraries must adhere to strict regulations when investing reserve funds, as they are custodians of public funds. The investment of moneys held by public libraries is primarily governed by General Municipal Law (GML) Section 11. In order to invest funds, libraries must have an Investment Policy that is reviewed annually.

### **Permitted Investments**

Under GML Section 11, public library funds may generally be invested only in a limited number of financial vehicles:

- **Special time deposit accounts or certificates of deposit** issued by a bank or trust company located and authorized to do business in New York State. These must be payable within the time the funds are needed.
- These time deposits or certificates of deposit must be **secured by a pledge of obligations** of the United States of America or obligations of the State of New York.
- **Registered or inscribed obligations** of the United States of America or the State of New York, payable or redeemable at the library's option within the time the proceeds are needed.

### **Investment Income**

A critical aspect of reserve fund management is the proper handling of investment income:

- Interest and capital gains earned from investing reserve funds must be credited back to those same reserve funds.
- The earnings "follow the principal" - even if cash is pooled for investment purposes, each reserve fund receives its proportional share of total earnings.
- Interest earned on invested public library moneys must be credited to the library fund and not to the general fund of the municipality.

## Minimizing Bank Accounts

Numerous bank accounts can complicate effective control of cash and reserve funds. Best practices for bank account management include:

- **Consolidate accounts:** Bank accounts should be consolidated to the extent possible while remaining consistent with applicable legal and accounting requirements.
- **Strategic exceptions:** In certain situations, separate checking accounts may be advantageous. For example:
  - A single payroll account to consolidate the processing of all payroll checks and withholdings
  - A single checking account to process vendor checks approved for payment from several different funds
- **Commingling for investment:** Moneys generally may be commingled for investment purposes as long as accurate accounting records are maintained to track the separate sources of all money. Interest earned would then be allocated proportionally based on the time and principal amount of each investment.
- **Diversification considerations:** Before combining funds for investment purposes, library officials should carefully consider the benefits of diversification of investments, which can serve to reduce risks and increase the amount of FDIC insurance coverage available.

## Conclusion

Reserve funds are an essential financial planning tool for public libraries in New York. When properly established and managed, they enable library boards to fulfill their fiduciary responsibilities while ensuring the long-term sustainability of library services.

Library trustees should work closely with their directors and financial advisors to develop appropriate reserve fund policies and practices that align with legal requirements and the library's strategic goals. Regular review of reserve funds should be incorporated into the library's financial planning process.

Given the complexities of public library finance and reserve fund management, consulting with your local government's legal counsel and financial advisors is highly recommended. For additional support, public libraries may wish to contact regional offices of the Office of the New York State Comptroller.

## Resources

- Local Government Management Guide: Reserve Funds (<https://www.osc.ny.gov/files/local-government/publications/pdf/reserve-funds.pdf>)
  - Local Government Management Guide: Investing and Protecting Public Funds (<https://www.osc.ny.gov/files/local-government/publications/pdf/investing-and-protecting-public-funds.pdf>)
  - Handbook for Library Trustees of New York State (2023 Edition), Budgets and Finance (<https://nyslibrary.libguides.com/Handbook-Library-Trustees/budget-finance>)
  - General Municipal Law (GML) Sections 6-c through 6-r (<https://www.nysenate.gov/legislation/laws/GMU>)
  - OSC Audits concerning library finances and reserve funds (<https://www.osc.ny.gov/local-government/audits>)
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