

LIBRARY DEPRECIATION RESERVE FUND HANDBOOK



**MONTANA
STATE LIBRARY**
A GREATER STATE OF KNOWLEDGE

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What is a Library Depreciation Fund, and why should my library have one?

The Library Depreciation Reserve Fund (LDRF) is a type of reserve fund specifically for libraries, as defined in Montana Code Annotated (MCA):

Library Depreciation Reserve Fund Authorized

Montana Code Annotated 22-1-305. Library depreciation reserve fund authorized.

The governing body of any city or county or a combination of city and county in Montana may establish a library depreciation reserve fund for the replacement and acquisition of property, capital improvements, and equipment necessary to maintain and improve city, county, or city-county library services.

22-1-306. Moneys for library depreciation reserve fund.

Moneys for the library depreciation reserve fund are those funds which have been allocated to the library in any year but which have not been expended by the end of the year. Such moneys include but are not limited to city or county or city-county appropriations, federal revenue sharing funds, and public and private grants.

22-1-307. Investment of fund.

The moneys held in the library depreciation reserve fund may be invested as provided by law. All interest earned on the fund must be credited to the library depreciation reserve fund.

As the law states, a depreciation reserve fund is a separate dedicated fund which a library may use for one-time purchases and improvements for the library. This is similar to a capital improvement fund but has fewer restrictions on how the funding may be spent. This allows the library to set aside funds for future needs and long-term projects. It also gives the library board the full authority over the use of the funds.

For example, libraries around Montana with Library Depreciation Reserve Funds have used those monies to pay for computers and networking equipment, HVAC systems, security equipment, new windows, furniture upgrades, roofing, exterior improvements, and more.

What is the difference between an LDRF and a County Capital Improvement Fund?

Library Depreciation Reserve Fund	County Capital Improvement Fund
Source of funding: unspent funds allocated to library	Source of funding: any source
Purpose of fund: replace and acquire property, equipment, and make capital improvements	Purpose of fund: replace, improve, and acquire property, equipment, and capital improvements
No restrictions on cost or useful life	Must cost over \$5,000 AND have a life of over 5 years
Established by the governing body	Established by the governing body
See MCA 22-1-305 thru MCA 22-1-307	See MCA 7-6-616

How is this different from our library's repair and maintenance fund in our regular operating budget?

Sorry, the funds can only be used for improving the facilities, property, or equipment. This would primarily be one-time purchases or projects. The fund is not intended to cover ongoing expenses.

Okay, this sounds great for the library. Why would my city or county want to approve this fund?

If the library has access to a Library Depreciation Reserve Fund, there will be less demand on the overall city or county Capital Improvement Fund. Libraries can be responsible for their own improvement planning and saving, rather than making requests to the city or county. This demonstrates wise use of taxpayer funds.

Great! How do we get started?

First, put the Library Depreciation Reserve Fund on your library board agenda for discussion. If the board agrees to proceed, at its next meeting the board can vote to pass a resolution requesting establishment of the fund. *You can find a sample resolution for both city or county libraries and for library districts in the appendix.*

Next, the library board notifies the local government that it wants to create the fund. You can use the reasons above to explain the benefit to both the library and the local government of establishing this fund. It may also be helpful to have a draft capital improvement plan for the library, explaining how you intend to use the money from this fund.

The board can supply a draft resolution to the city or county commission for them to vote on. A sample resolution for the local governing board is provided in the appendix.

Assuming that the city or county commissioners pass a resolution creating the fund, the library will then ask the treasurer or clerk to add the fund into their local financial reporting system. If there are remaining funds in the library's 2220 fund to transfer into the Library Depreciation Reserve Fund, let the treasurer or clerk know how much to transfer.

Funding

How much money can we save in our Library Depreciation

Reserve Fund?

Per MCA 22-1-306, at the end of the fiscal year the amounts of non-capital operating income and expenses will be compared to establish whether there are leftover funds in the general library fund. Surplus operating funds may be transferred into the Library Depreciation Reserve Fund at the discretion of a vote by the Board of Trustees.

There is technically no limit to the amount a library can save in its Library Depreciation Reserve Fund. However, saving a large amount of money without a plan in mind could damage trust amongst taxpayers and hurt the library’s ability to request additional funding in the future. The library should have a plan for how the funds will be spent. If the library is saving for a specific project, the board should document and communicate this plan. A library depreciation policy is also a good idea because it defines the purpose and use of the fund. *An example policy and capital improvement plan budget are available in the appendix.*

Having a spending plan and a policy in place allows taxpayers to see that the library is a responsible steward of tax dollars.

How will the Library Depreciation Reserve Fund and expenditures appear in our financial reports?

In BARS, the local government accounting system, a Library Depreciation Reserve Fund is classified as “Capital Project Funds” - BARS 4000-4099.

When a library transfers cash from its operating fund to the depreciation fund, it can be an inter-fund transfer – it should not be shown as revenue a second time. It was a revenue when the library brought the money in from taxes, grants, etc.

An example of an inter-fund transfer would be:

Fund	Activity	Type
Library operating fund	521000-820 – transfer out	debit
Library operating fund	101000 – cash	credit
Library depreciation reserve fund	101000 – cash	debit
Library depreciation reserve fund	3838000 – transfer in	credit

That way, the money transferred does not show as revenue.

How do we spend the money in our Library Depreciation Reserve Fund?

When you want to spend money from this fund you should create a budget for it. For simple projects you can enter a single line item (such as “Capital Improvements” or “Repairs and Maintenance”). More complex projects may require additional line items if they need to be coded as different expenditures.

If you have unexpected facility/equipment expenses and want to pay for them with Library Depreciation Reserve funds, you will need to follow your city or county’s process for requesting the transfer of funds. This likely entails requesting the funds at one board meeting, and then passing a budget amendment to integrate the funding into your operating budget at a subsequent meeting. The budget amendment documents that you have the authority to spend these funds.

Your clerk or finance officer may prefer to either transfer funds from the Library Depreciation Reserve Fund to your library’s operating budget, or they may want to maintain a separate budget for this fund. Ask your clerk about their preferences.

How can the monies in the Library Depreciation Reserve Fund be invested?

Montana law describes how public money can be invested in MCA 7-6-202.

As stated in MCA 22-1-307, all interest earned on the fund must be credited to the library depreciation reserve fund.

Local Government and your LDRF

Does our local governing body have any authority over how we spend our Library Depreciation Reserve Fund?

Your local government has the authority to set the amount of general fund revenue appropriated to the library. MCA 22-1-309 gives the library board control over the library budget once those monies have been allocated:

"The library board of trustees shall have exclusive control of the expenditure of the public library fund, of construction or lease of library buildings, and of the operation and care of the library. The library board of trustees of every public library shall: (6) prepare an annual budget, indicating what support and maintenance of the public library will be required from public funds, for submission to the appropriate agency of the governing body. A separate budget request shall be submitted for new construction or for capital improvement of existing library property."

In other words, your local government does not have authority to approve or deny expenditures from this account. Please note this is true for most of Montana's public libraries. There are a few libraries that are part of a local government that has a self-governing charter that grants financial management authority to the local government.

What if our local governing body changes its mind?

An opinion from the Attorney General's office suggests that, since the creation of the Library Depreciation Reserve Fund is discretionary, the governing body would have the authority to pass another resolution to dissolve the fund if desired. However, funding already appropriated to the Library Depreciation Reserve Fund cannot be transferred or used for another purpose.

Public libraries are funded through a tax levy and may not be used for any other purpose (MCA 22-1-304 (3)).

Public library districts are funded through a property tax levy (MCA 22-1-708 (1)).

What if our local governing body won't approve the fund request?

What if they want us to use a capital improvement plan, instead?

If the local governing body wants the library to use a capital improvement fund, the director and library board will need to decide upon the best strategy. A library depreciation fund gives the library the most flexibility for managing and allocating the funds and might be what the library needs if there are a lot of facility/maintenance expenses that fall below the dollar threshold required for a capital improvement fund. However, if the primary goal is to have funding for large capital projects that would meet the 5 year/\$5,000 threshold, the library may wish to agree to a capital improvement plan.

Sometimes, local governing officials want the capital improvement plan option because it reflects the needs of all county/city departments. It may be simpler for the finance office or clerk to manage only one fund with multiple accounts. There are a variety of reasons why the local government officials might want the library to use a capital improvement fund. The library board and director must weigh the pros and cons of a library depreciation fund vs. capital improvement fund to decide on the best approach to take in this situation.

Can a dedicated library line item in the County Capital

Improvement Fund be reallocated for other non-library purposes?

It's best to seek the advice of legal counsel. However, if the local government officially adopted a library line item within their County Capital Improvement Fund and placed funds within that line item, there needs to be a formal process for reallocating those funds for non-library purposes. Local governments are expected to respect and be cognizant of any designated purposes for funds.

Hopefully local government officials would have a conversation with the library board and director about their desire to reallocate any funds dedicated to the library. This does not always happen. The Montana Department of Administration's Local Government Services Bureau may be a helpful resource in this situation.

Please contact your local legal counsel for more information.

Appendices

Sample resolution language for library board to request establishment of a library depreciation reserve fund per MCA 22-1-305

Whereas the (Library Name) was officially created in accord with MCA (insert correct MCA code here – whichever code established the library be it within Title 22 or within Title 7), and

Whereas the Library Board of Trustees was appointed and made responsible for the oversight and direction of the library in accord with MCA (insert appropriate MCA code here – whichever code specifies how board members are appointed), and

Whereas the Library Board of Trustees is entrusted to ensure that the residents of the library service area are provided access to quality library services and resources that will meet both their current and future information, recreation, and educational needs, and

Whereas the Library Board of Trustees takes seriously its duty to provide for sound fiscal management of all Library funds, and

Whereas the (insert formal name of city/county governing body) is empowered by MCA 22-1-305 to establish a Library Depreciation Reserve Fund for the benefit of the Library,

Be it hereby Resolved that the Library Board of Trustees does through its regular approval process on this date elect to exercise the authority granted it by the laws of the State of Montana to request establishment of a Library Depreciation Reserve Fund for the Library, and

Be it further resolved that said Library Depreciation Reserve Fund will be managed and subject to audit controls in a similar manner as other funds under the control and authority of the Library Board of Trustees, and

Be it finally resolved that the Library Board of Trustees may from time to time as it sees fit set defined goals for the expenditure of the monies in the Library Depreciation Reserve Fund as well exercise the authority to impose appropriate income or expenditure limits on the fund so long as such actions do not restrict the purpose(s) for which the Fund was established.

Resolution Adoption Date _____

Signature of the Library Board Chair _____

Signature of the Library Board Secretary _____

Sample Resolution Language for an Independent Library District Board which has the authority to establish a library depreciation fund per MCA 22-1-716

Whereas the Library District was officially created on [insert date] in accord with MCA 22-1-704, and

Whereas the Library Board of Trustees was appointed and made responsible for the oversight and direction of the district on date in accord with MCA 22-1-704, and

Whereas the Library Board of Trustees is entrusted to ensure that the citizen residents of the district are provided access to quality library services and resources that will meet both their current and future information, recreation, and educational needs, and

Whereas the Library Board of Trustees takes seriously its duty to provide for sound fiscal management of all Library funds, and

Whereas the Library Board of Trustees is empowered by MCA 22-1-716 to establish at its discretion a Library Depreciation Reserve Fund for the benefit of the Library,

Be it hereby Resolved that the Library Board of Trustees does through its regular approval process on this date elect to exercise the authority granted it by the laws of the State of Montana to establish a Library Depreciation Reserve Fund for the Library, and

Be it further resolved that said Library Depreciation Reserve Fund will be managed and subject to audit controls in a similar manner as other funds under the control and authority of the Library Board of Trustees, and

Be it finally resolved that the Library Board of Trustees may from time to time as it sees fit set defined goals for the expenditure of the monies in the Library Depreciation Reserve Fund as well exercise the authority to impose appropriate income or expenditure limits on the fund so long as such actions do not restrict the purpose(s) for which the Fund was established.

Resolution Adoption Date _____

Signature of the Library Board Chair _____

Signature of the Library Board Secretary _____

Sample Resolution Language for Cities/Counties establishment of a library depreciation reserve fund per MCA 22-1-305

Whereas the [**Library**] was officially created in accord with MCA [**insert correct MCA code here – whichever code established the library be it within Title 22 or Title 7**], and

Whereas the Library Board of Trustees was appointed and made responsible for the oversight and direction of the library in accord with MCA [**insert appropriate MCA code here – whichever code specifies how the board was appointed**], and

Whereas the Library Board of Trustees is entrusted to ensure that the residents of the library service area are provided access to quality library services and resources that will meet both their current and future information, recreation, and educational needs, and

Whereas the Library Board of Trustees takes seriously its duty to provide for sound fiscal management of all Library funds, and

Whereas the [**insert formal local governing body**] is empowered by MCA 22-1- 305 to establish a Library Depreciation Reserve Fund for the benefit of the Library,

Be it hereby Resolved that the [**insert formal local governing body name**] does through its regular approval process on this date elect to exercise the authority granted it by the laws of the State of Montana to establish a Library Depreciation Reserve Fund for the Library, and

Be it further resolved that said Library Depreciation Reserve Fund will be managed and subject to audit controls in a similar manner as other funds under the control and authority of the Library Board of Trustees, and

Be it finally resolved that the Library Board of Trustees may from time to time as it sees fit set defined goals for the expenditure of the monies in the Library Depreciation Reserve Fund as well exercise the authority to impose appropriate income or expenditure limits on the fund so long as such actions do not restrict the purpose(s) for which the Fund was established.

Resolution Adoption Date _____

Signatures of local governing body members and/or chair (depending upon local practice)

Sample Public Library Depreciation Fund Policy

Per MCA 22-1-305, the purpose of the Library Depreciation Fund is to provide funding for the replacement and acquisition of property or equipment and to pay for repairs and improvements of the buildings, facilities, and grounds of the **Sample Public Library** (“the Library”). Qualifying expenditures occur when there is a purchase or acquisition of an asset that will benefit the Library for an extended period of time.

Budgeting and Surplus Transfers

Per MCA 22-1-306 at the end of the fiscal year the amounts of non-capital operating income and expenses will be compared to establish whether there are leftover funds in the general library fund. Surplus operating funds may be transferred into the Library Depreciation Fund at the discretion of a vote by the Board of Trustees (“the Board”). However, surpluses may not be budgeted in the Library’s annual budget and the Library must make a good faith effort to avoid surpluses if possible.

In order to ensure adequate library depreciation funding, the Library’s annual budget may include an allocation for “Transfers to the Library Depreciation Fund”. The allocation will be determined as part of the normal Library/County budgeting process.

The Board may budget for transfers if the Library has a large capital improvement project where funding will need to be built up over multiple years.

The Library Director will work with the **City or County** to transfer leftover dollars to the Library Depreciation Fund.

Library Depreciation Fund Investment

Funds held in the Library Depreciation Fund shall be invested according to the **City or County’s** investment policies and the law. Per MCA 22-1-307 any interest earned on the Library Depreciation Fund will be credited to the Library Depreciation Fund.

Library Depreciation Fund Expenditure Selection Process

This fund allows the Library to wisely steward public funds by giving the Board the ability to set aside funds each year to pay for larger expenditures related to capital/equipment replacement, repair, and acquisition. The director will create and maintain a capital improvement plan.

The Director will make recommendations to the Board for possible Library Depreciation Fund expenditures using the Capital Improvements Plan as a guide. There may be situations where

an emergency repair or replacement is not listed on the plan but must be addressed for the safety and welfare of community members. The Director may recommend use of Library Depreciation Funds for this purpose. The Board shall approve expenditures based on the long-term benefit of the expenditure and the amount of available Library Depreciation Funds.

The Board must approve all expenditures from this fund.

All Library Depreciation Fund expenditures shall be made in accordance with the **City or County's** procurement policies.

Fund Balance

The goal for the Library Depreciation Fund balance should be to maintain a balance within the range of 8% to 12% percent of the Library's overall operating budget. This balance exists to pay for unexpected capital expenses. Identification of large capital purchases and building / opportunity expenses may necessitate Board revision of this balance target.

Adopted by the Board of Trustees:

Signatures of local governing body members and/or chair (depending upon local practice)

Capital Improvements Plan Budget Example

Item	Year	Description	Purchased	Cost	Life span	Approximate replacement cost	Est. replacement year
Copy Machine	2019	Sharp MX2630N	2019	\$4,975.00	5	\$6,000	2024
Facility Upgrades	2021	Carpet	2021	\$4,814	15	\$5,000	2036
	2022	Furniture	2022	\$4,398.80	10	\$5,000	2032
	2021	Shelving	2021	\$5,038.24	10	\$5,000	2031
Outdoor Book Drop	2019	Kingsley 60 C-series	2019	\$9,585.00	15	\$10,000	2029
Public Computers	2020	3 Dell All-in-One	2020	\$6,394.06	5	\$7,000	2025
Security System	2022	Lorex 2K Battery-Operated System (4 cameras)	2022	\$299.99	3	\$500.00	2025
Self-Checkout	2019	HPCS Library Services Check Ez 201	2019	\$2,550.00	5	\$3,000	2024