

Tracy Cook

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Cc: "Carrie Terrell" <cterrell@mtlib.org>; "Staffeldt, Darlene" <dstaffeldt@mt.gov>
Sent: Friday, March 09, 2007 3:27 PM
Subject: RE: another depreciation fund question

Tracy and Carrie.

MCA 22-1-305 states that a library depreciation reserve fund is established for the replacement and acquisition of property, capital improvements, and equipment necessary to maintain and improve city, county, or city-county library services. MCA 22-1-306 states that moneys eligible for inclusion in such a reserve fund include but are not limited to non-expended city or county appropriations, federal revenue sharing funds, and public and private grants. MCA 22-1-309 states that the library board has exclusive control over the expenditure of the public library fund and any private funds granted or given directly to the library.

Thus, it can be determined that the expenditure of the monies held in the library depreciation fund is also under the control of the library board. As stated in MCA 22-1-305 the board must expend such funds on capital expense items and not general operations, personnel, supplies, etc. There are no provisions mentioned in this section of the law regarding the earmarking of specific money amounts within the fund for specific capital expense purposes. Since earmarking is not prohibited the board may decide to adopt such earmarking as a part of its fiscal management strategy. I do not believe that it is necessary or desirable to create separate account funds for this purpose and there is likely no legal basis on which to do so. The board could simply record its intent in the minutes of a board meeting and/or adopt a fiscal management policy addressing its intent.

However, I would suggest that since the board retains control of the expenditure of the reserve fund anyway, it may well be prudent for the board to refrain from earmarking funds. Unnecessary earmarking of reserve funds may unduly restrict the board (current or future) from responding efficiently and effectively to urgent or unanticipated needs that arise. The reserve fund is not necessarily by design a rainy day fund, but instead meant to help the board put in place capital items that will help maintain or improve library services. It might be preferable to designate the amount to be expended for a specific capital item need when that need arises, leaving the balance of the fund available for other known or unknown needs that the board may face. There have been instances of libraries being forced to deliver lower quality services for years while available funds were hoarded for future contingencies. There is a sensible balance point here, and each board must determine where that balance point is for its library and patrons.

I hope this response answers your question, Carrie.

Hi Bob,

I'm starting to think it would be a good idea to have some depreciation fund training :) Carrie from Plains has a quick question for us.

Within her current depreciation fund, can she specify that certain funds are restricted for a particular use? For example, if the library puts a \$1000 into the fund, can they say that it can only be used for capital improvement while saying another \$1000 is to be used towards any costs associated with a disaster.

Or do they have to create separate depreciation funds for each type of expense? I thought she could restrict funds within her current depreciation fund, but I'm not a 100% sure.

3/12/2007