

Fraser Valley Regional Library

FINANCIAL MANAGEMENT POLICY

Approved by FVRL Board

September 21, 2016

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PURPOSE

The purposes of this policy are to:

- Direct and encourage effective and wise decision making on financial management issues in support of:
 - member-determined, quality service provision that meets the needs of member communities,
 - achievement of corporate strategic plan priorities, and
 - long term financial sustainability.
- Enhance and support the financial framework and system of internal controls to support the safeguarding and efficient stewardship of assets.

As a result of purpose achievement:

- FVRL will be in a position to meet financial obligations and take advantage of opportunities that arise.
- Financial assets will be used efficiently for library purposes.
- Member-determined service levels will be met and will be sustainably funded.
- Member's assessment will be stable, equitable, predictable and affordable.

RESPONSIBILITIES

FVRL DIRECTOR OF FINANCE

- Responsible for the overall implementation, maintenance, monitoring and reporting requirements of this policy.
- Responsible to develop, monitor and maintain an effective, supporting, system of internal controls.
- Responsible for ongoing communication of the requirements of this policy and the system of internal controls to the Board and all staff (in particular, management).

FVRL MANAGEMENT

- Responsible to review, be familiar with, and comply with, the intent and requirements of this policy.
- Responsible for ongoing communication of the intent and requirements of this policy to their staff team members, as appropriate, based on their level of responsibility and job duties.

FVRL BOARD

- Responsible to review, consider, and revise this policy (with the support of management) as necessary to meet the needs of FVRL and served communities.
- Responsible to be familiar with, and consider, the intent, requirements, and purpose/objectives of this policy when making decisions that impact FVRL. Regardless, decisions should be made in the best interest of FVRL which, by definition, includes the interests of its members and the communities served.
- Responsible to consider the financial implications of all decisions made and their likely impact on FVRL's budget and member assessment, and long term financial sustainability.

REPORTING AND POLICY REVIEW

This policy shall be reviewed and either reconfirmed or amended by the Board at the start of the annual financial plan development process.

In support of the Board's review, the Director of Finance will prepare a report to the Board:

- Highlighting the main contents and requirements of this policy.
- Identifying and recommending any policy revisions.
- Stating that the requirements of this policy have been met, as may be reasonably asserted based on the Director's knowledge and overview of operations, and/or detailing any requirements that have not been met.
- Where policy targets are stated, the extent to which the targets have been met (a plan to achieve the target(s) will be developed for consideration by the Board as part of that annual financial plan process).

PRINCIPLES

TRANSPARENCY – Financial policies, practices, and results shall be regularly and openly communicated in an unbiased manner.

ACCESSIBILITY – Services shall be accessible by all and, accordingly, in addition to those legally required to be free under the *Library Act* (i.e., admission and use of library materials), library programs and other services shall be provided free of charge or for a nominal fee that is equal to, or less than, the direct (i.e., excluding overhead) service costs.

VALUE FOR MONEY FOCUS – Service efficiency, economy, and effectiveness improvements shall be deliberately sought and implemented.

LONG TERM VIEW – All decisions should consider the impacts on FVRL and its served communities' long term sustainability considering financial, environmental and social impacts. If not feasible to select the most sustainable option, decisions must be at least a “step in the right direction” in the sense that they move FVRL and/or its served communities towards long term sustainability and do not limit future choices by making significant financial commitments or investments. It is recognized that, in most cases, the decision made will not be the “most sustainable” one from the financial, environmental and social perspectives, but will involve a trade-off between these values.

CONTINUOUS, INCREMENTAL IMPROVEMENT – The financial systems and processes shall be continuously and incrementally improved.

ADOPTER OF PROVEN TECHNOLOGY – FVRL will use proven technology to both enhance service levels and customer experience and contain/minimize costs. Investments in new technology, which comes with potential risks and costs of failure, will be employed strategically where the identified benefits outweigh the likely/potential costs.

COMMUNITY PARTNER - FVRL shall be a valued and vital community partner, actively working with members to address FVRL customer needs. FVRL's primary role is to provide information and/or to connect customers with available community services, maintaining a focus as a facilitator and resource centre, and not as the direct service provider for other than core library services.

REGIONAL SERVICE, MODIFIED TO MEET LOCAL COMMUNITY NEEDS - FVRL shall provide a quality, consistent, and distinct brand of library services (core services) to all member communities. Within these parameters, service delivery methods, service levels, and focus will be modified and adjusted to meet local community needs as determined by its members and respective community needs.

ANNUAL BUDGET

CERTAIN FINANCIAL DECISION TO BE DEFERRED TO THE ANNUAL BUDGET PROCESS

Where possible, all decisions respecting service level and/or other changes that will have a material, ongoing financial impact on member assessment must be deferred to the annual budget process.

STRUCTURALLY BALANCED BUDGET

The annual budget will be structurally balanced such that reoccurring operating revenues will equal or exceed:

- Recurring operating expenses, excluding amortization expense, *plus*
- Debt principle repayment(s), *plus*
- Materials capital expenditures, *plus*
- An annualized allocation to fund capital expenditures (other than materials) necessary to maintain service levels as identified in the respective long term capital plan (referred to as the Capital Funding Envelope).

Operating revenue and expenses are those sources and uses of funds that meet the definition of revenues and expenses under Public Sector Accounting Board (PSAB) standards.

If a structural imbalance occurs, a plan will be developed and considered during the annual budget process to bring the operating budget back into balance.

DEVELOPMENT PROCESS

The annual budget process shall generally be developed as follows:

January - April

- Review and update of FVRL strategic plan.

May - June

- Review of FVRL financial condition.
- High-level financial forecast of budget revenues and expenses, and likely impacts on total member assessment.
- Review and revision/confirmation of existing financial management policy.
- Request for Board and member¹ direction to identify priorities, maximum member assessment impacts, and other key directives (including changes in service levels) sufficient to guide the development of a draft budget that should meet Board approval.
- Board to provide specific direction for the development of Service Level Reduction Packages, if desired. If no direction is provided, the draft budget will be comprised of a Base Budget plus any number of optional Service Level Enhancement or Reduction Packages developed at the discretion of management.
- Process to include a Board presentation and consultation with member finance officers.

July-August

- Budget preparation and finalization by staff.
- Process to include proactive actions by FVRL library managers and senior staff to communicate corporate strategic plan priorities, supporting work-plan(s) and any related implications, to member staff liaison(s), with the objective to both better inform and meet

¹ Individual Member direction respecting direct library branch services only, in accordance with the *Member Library Service Level Increase and Reduction Requests Policy*.

member/community needs, and to identify options to further enhance achievement through partnership.

September

- Draft budget review with member finance officers.

October

- Draft budget review and deliberations with Board.

November

- Board deliberations and selection of a preferred Board-proposed budget.

December or January (of applicable budget year)

- Board weighted vote on proposed budget.

CONTENT

The draft financial plan should:

- When meaningful, be presented as a base budget plus optional service enhancement or reduction additions.
- Detail financial impacts and reasons for material changes on the major revenue and expense categories, and summarize the primary drivers of change in member assessment.
- Detail all material service levels and/or service delivery methods, changes.
- Identify:
 - cost containment or reduction, and/or
 - revenue supporting or enhancement, initiatives undertaken in the last fiscal period, and being considered or planned for the coming fiscal period.

SERVICE LEVEL INCREASES OR DECREASES

Service level increases or decreases may be made on a temporary or trial basis at the discretion of the responsible manager.

Service level increase(s) or decrease(s), considered in total for each FVRL service area² that are:

- intended to be ongoing,
- material (>\$10,000 annually), *and*
- that will require/result in an increase or decrease in member assessment,

must be identified in the annual budget process or otherwise, for consideration and approval by the Board and individual member (for individual library branch services only).

Service level increases must:

- first seek options to fund within the existing funding levels, either through gains in efficiency and/or discontinuance of lower priority service(s).

- not be implemented without an identified funding source which may include one or a combination of new revenue sources, reduction in other service costs, and/or an approved increase in member assessment.

In any case, managers must communicate, in advance, any material (>\$10,000 annual impact) and other potentially sensitive service level changes, both temporary and ongoing, to their respective director who, at their discretion (erring on the side of “over-communicating”), will inform the Chief Executive Officer, the Board and/or impacted members.

² FVRL service areas for the purposes of this policy are: Direct Library Branch Services for each member, Library Collections Materials Purchases (capital and operating), Administrative Centre Support Services, and the annual Capital Reserve Allocations (“Capital Funding Envelopes”). Service areas do not include capital expenditures (except for materials) and debt repayment expenses/expenditures.

MONITORING AND REPORTING

FVRL Director of Finance

- Is responsible for designing, implementing, and monitoring a system of budget internal controls and reporting designed to support budget compliance and minimize potential shortfalls.
- Must notify the Chief Executive Officer and the Board as soon as s/he is aware that, despite best efforts, the net operating budget (being net operating expenses) is expected to exceed budget by greater than \$125,000 (being about 0.5% of total net operating expenses), inclusive of a funding plan for the shortfall.
- Must prepare a forecast of actual revenues and expenses for the fiscal period, identifying and explaining anticipated budget variances, in a report to the Board each September.
- Must prepare annual financial statements and a supporting report that identifies and explains FVRL ending financial position and results of operations (including material budget variances), in conjunction with the annual financial statement audit.

FVRL Managers and Directors

- Have primary responsibility for monitoring and managing their division's/department's financial performance within their approved net operating and capital budgets, and in accordance with all applicable policies and procedures.
- Must notify the Director of Finance as soon as s/he is aware that, despite best efforts, the division/department's net operating budget or total capital expenditures, are expected to materially exceed (>\$10,000) budget.

AMENDMENT

Once approved by the Board, the budget is not required to be amended.

However, specific Board approval by resolution is required in advance of committing to the related expenditures:

- if the total net operating budget is expected to be over budget by greater than \$125,000 (being about 0.5% of net operating expenses).
- if total capital expenditures³ are expected to be over by greater than \$50,000 and funding cannot be made from within the net operating budget.
- for capital expenditures⁴ over \$50,000 not in the Board approved budget, or that are generally included in the Board approved budget but are materially different in scope.

³ Excluding materials capital expenditures as they are included in the net operating budget (see definitions section).

⁴ Excluding materials capital expenditures as they are included in the net operating budget (see definitions section).

LONG TERM FINANCIAL PLAN

PURPOSE

The primary purpose of the long term financial plan is to support long term financial sustainability.

More specific objectives/benefits include:

- To improve financial decision making; by providing a longer term perspective.
- To improve the annual budget quality by providing context and better informing annual forecasts.
- To identify potential future financial risks and opportunities and related impacts, in a timeframe that allows the development and implementation of related strategies to minimize the risks and maximize the opportunities.
- To provide members with long term financial projections to be used for their own planning purposes.

SCOPE

To include all of the following components:

- High level, long term (ten year minimum) financial projections, gap/issue identification and analysis, and supporting strategy development.
- Five year operating and capital plan detailing:
 - Primary sources and uses of funds
 - Key financial indicators
 - Overall impacts on Member Assessment
 - Supporting financial strategies
- Separate, supporting financial policies.

- Separate, supporting lifecycle capital plans for all major asset categories (Information Technology and Administrative Centre and Equipment) and Library Collections (new libraries, special additions, contingency needs, etc.).
- Separate, limited scope, Library Branch lifecycle capital plans to facilitate communication of Library Branch capital needs that are the direct responsibility of, and owned by, members:
 - Plans to include *only* the branches' furniture and equipment and limited building renovations that may be identified to better meet customer needs on the assumption of maintaining the same/similar level of service.
 - Plans are not to contemplate or suggest when significant space additions or new libraries are required, or to address the capital replacement or major upgrade needs of the building.

DEVELOPMENT PROCESS

The long term financial plan shall be developed incrementally over a number of years.

SOURCES OF FUNDS

MEMBER ASSESSMENT: FUNDING FORMULA

The competing objectives of the funding formula are:

- To provide a fair allocation of the budget based upon the level of service and usage at each member's libraries in order to provide members with greater control over their budget assessment and to allow them to determine the level of service provided to their community.
- Simplicity and understandability, to minimize administrative costs and time.
- Predictability of assessment impacts to support members' ability to manage fee impacts.

BASIS OF COST ALLOCATIONS

- **Library Branch Revenues and Expenses (Direct Services)**
 - Direct revenues raised, and costs incurred, by individual libraries are charged to the respective member as much as possible.
- **Shared Services**
 - *Usage Allocations:* Where usage statistics are available, reliable, and indicative of usage, this method of cost allocation is used (e.g. Information Systems Operations, Shipping Operations, Human Resources and Payroll).
 - *Allocation Based Upon Population:* Where reliable usage statistics are not available for cost centres relating to products and services to customers, the costs are allocated on a *per capita* basis according to the BC Statistics for service area populations [e.g., Support Services (library materials), Outreach Services' home delivery, system-wide programs and services, and Public Library InterLINK fees].

- **Administration and Overhead**

The remaining system-wide support services based at FVRL's Administrative Centre, including the Administrative Centre building costs, are allocated according to the member's share of the budget up to that point.

- **Shared Employee Salary and Benefit costs ("Other Benefit Costs")**

The following employee salary and benefit costs are shared equally across all employees based on the total of that employee's other budgeted salary and benefit costs:

- Employee Future Benefits - e.g. retirement benefits, supplemental vacation and longer-term sick leave.
- Maternity top-up benefits.
- Casual employees salary and benefits for initial training and when not filling a temporary position.
- Other unionized employee salary and benefits when acting for FVRL as a whole for a period of time expected to exceed ten (10) working days in any fiscal year, as approved by the Chief Executive Officer.
- Travel and other non-salary and benefit expenses incurred as a result of the above.

- **Members Without Libraries**

- ***Metro Vancouver (Barnston Island, Electoral Area A)***

Given the small Barnston Island population, Metro Vancouver is charged a minimum assessment of \$2,000 per year for library services. The \$2,000 per year fee is allocated against the budget assessment of members with libraries, according to their share of the budget up to that point.

- ***Harrison Hot Springs***

With active library users and a larger population than Barnston Island, the Village of Harrison Hot Springs is charged for library service based on its previous year's assessment plus an adjustment that reflects FVRL's overall average increase/decrease to all members. The Village's assessment is allocated against the budget assessment of members with libraries, based on the Village's usage (circulation) of that member's library(ies) in the previous year.

FRASER VALLEY REGIONAL LIBRARY FUNDING FORMULA SUMMARY

LIBRARY COSTS

| | |
|-----------------------|--------------------------|
| Salaries and Benefits | Direct charge to library |
| Photocopiers | Direct charge to library |
| Building | Direct charge to library |
| Capital Assets | Direct charge to library |
| Promotion | Direct charge to library |
| Programs | Direct charge to library |
| Postage | Direct charge to library |
| Office Supplies | Direct charge to library |

SHARED SERVICES COSTS

| | |
|--|--|
| Library Materials + Wages | Per Capita Allocation |
| Customer Services Wages + FVRL-wide Programs | Per Capita Allocation |
| Outreach Services Wages | Per Capita Allocation |
| Public Library InterLINK Fees | Per Capita Allocation |
| Computer Operations + Wages | Number of Computers and Self-Check-Out Units |
| Vehicle Operations + Wages | Number of Deliveries |
| Human Resources + Wages | Number of FTEs |
| Communications + Wages | Percentage of Total Library Costs |
| Collection Agency Fees | Percentage of Total Library Costs |
| Content Insurance | Percentage of Total Library Costs |

GRANT REVENUE

Staff may apply for grants that address FVRL goals and priorities and for which the benefits outweigh the costs. Grants that also address broader goals and priorities of local members are preferred.

All grant applications must be approved by the Chief Executive Officer, subject to review of a grant synopsis report that outlines the FVRL and member goals and priorities addressed, as well as immediate and ongoing costs and benefits.

ONE-TIME REVENUES

One-time revenues—such as proceeds from asset sales, debt refinancing, significant fee revenue spikes and similar revenues—shall not be used to fund ongoing operating expenses.

One-time revenues may be used to fund one-time operating expenses, capital expenditures, early debt repayment and/or to replenish reserves or surplus to target levels.

DONATION REVENUES

Donation revenues are not typically used to fund ongoing operating expenses. Donation revenues may be used to:

- fund one-time operating or capital expenses;
- fund distinct new, or existing ongoing programs or services, where the donation revenue source is expected to be sufficient and ongoing in the normal course of operations, either through funding provided by a dedicated endowment fund, or individual or corporate donor.

Ongoing funding arrangements for donations over \$10,000 annually must be approved in advance by the Chief Executive Officer.

SPONSORSHIP REVENUES

Sponsorship revenues are similar to donation revenues but do not qualify for a charitable tax receipt. The sponsor receives the benefit of public recognition of the sponsorship. Benefits are negotiated and may include a variety of recognition services, including naming privileges for the funded program, service or capital expenditure. All sponsorship revenues must be approved by the Chief Executive Officer.

FEES AND CHARGES

Universal access for all is a central value of FVRL. Accordingly, fees and charges are not set to generate a net profit but, rather, to cover related direct costs, adjusted as necessary in response to market, social, and other factors. Direct costs are the costs of materials, labour, and supplies incurred as a direct result of the service provision. Such costs do not include organizational overhead (i.e., building or management costs).

All new fees must be approved by the Board. Once approved by the Board, fees will be reviewed and updated normally every five years via a Fee Review Report to the Board. In the interim years, fees may be adjusted annually to reflect the change in inflation, at the discretion of the Chief Executive Officer.

Fees and charges are of low/nominal value and may be reduced or waived in accordance with administrative principles set by the Chief Executive Officer, in consideration of the individual circumstances of the customer and other relevant factors.

FINES AND REPLACEMENT FEES

Universal access for all is a central value of FVRL. Accordingly, fines and replacement fees are set to encourage the prompt return of materials in undamaged condition for the greater benefit of all customers.

Such fees are not set to be punitive for customers and may be reduced or waived in accordance with administrative principles set by the Chief Executive Officer, in consideration of the individual circumstances of the customer and other relevant factors.

RESERVES AND SURPLUS

The maintenance of various surplus and reserves are best practices that support both long and short term financial sustainability. Proactive management and use of reserves and surplus support economic, efficient, and effective operations, and are fundamental to achieving lowest cost and predictable cost-levels to members over time.

In addition to the maintenance of an unappropriated general surplus account, FVRL maintains the following set of reserve accounts:

- Information Technology Investment

- Buildings, Equipment and Vehicles

- Member - Salary and Benefit

- Library Collections

- i(dea)Centre and Innovation

To the degree that any of the above stated surplus and reserves target ending or annual funding levels (as stated below) are not met, recommendations to meet shall be developed, and considered by the Board in conjunction with the annual budget process.

SURPLUS

| | |
|--|--|
| Description | Accumulated net financial assets since the inception of FVRL that have not been “appropriated” into a Reserve Fund. |
| Required Use of Funds | <ul style="list-style-type: none"> • Fund one-time or periodic operating or capital expenses. • Phase in significant increases in member assessment. • Finance operations prior to receipt of planned revenues. • Provide a level of self-insurance against material, unexpected events for which insurance is either not economical or cannot be purchased. |
| Requirements to Use | Board approval via annual budget process or separate resolution. |
| Funding Source and Annual Requirement | No specified annual funding source or requirement. |
| Funding Target | 5% or more of normalized annual operating expenses (about \$1.3M). |

RESERVE: INFORMATION TECHNOLOGY (IT) INVESTMENT

| | |
|--|---|
| Description | <ul style="list-style-type: none"> • Used to fund 100% of IT capital expenditures. • IT capital expenditures do not include certain assets that are the sole responsibility of individual members at members’ libraries, including: <ul style="list-style-type: none"> ○ All self check-in units ○ Computer desks, chairs, furniture, etc. ○ Library building computer wiring and necessary building renovations to support |
| Required Use of Funds | To provide sufficient funding to meet all annual IT capital requirements as per the IT Long Term Capital Plan. |
| Requirements to Use | Board approval via annual budget process or separate resolution. |
| Funding Source and Annual Requirement | Member assessment - a set annual contribution to Reserve. |
| Funding Target | <ul style="list-style-type: none"> • \$775,000 (2015 dollars) per year, adjusted by inflation annually. • Target update and sufficiency review completed every 3-5 years. |

| RESERVE: BUILDING, EQUIPMENT AND VEHICLES | |
|--|--|
| Description | <ul style="list-style-type: none"> • Used to fund 100% of FVRL asset capital expenditures, other than IT and materials assets. • Includes: <ul style="list-style-type: none"> ○ Administrative Centre component replacement, upgrade or addition (e.g. roof, HVAC, flooring, lighting, etc.) ○ Administrative Centre furnishings (tables, chairs, desks, etc.) ○ Administrative Centre equipment (photocopiers, postage machine, etc.) ○ Cash registers at Library branches ○ Photocopiers at Library branches ○ Vehicles • FVRL assets do not include Library branch building and equipment other than IT assets, cash registers, and photocopiers. |
| Required Use of Funds | To provide sufficient funding to meet annual asset capital requirements (other than IT and materials), as per the Building, Equipment and Vehicles Long Term Capital Plan. |
| Requirements to Use | Board approval via annual budget process or separate resolution. |
| Funding Source and Annual Requirement | Member assessment - a set annual contribution to Reserve |
| Funding Target | <ul style="list-style-type: none"> • \$89,500 (\$62,500 Administrative Centre and Equipment + \$27,000 Copiers, 2015 dollars), adjusted by inflation annually. • Target update and sufficiency review completed every 5-7 years. |

| RESERVE: LIBRARY COLLECTIONS | |
|--|---|
| Description | Used to fund periodic and/or one-time collection addition needs. |
| Required Use of Funds | <p>To provide sufficient funding for:</p> <ul style="list-style-type: none"> • Spending in excess of budget in a fiscal period, resulting from longer and unpredictable materials delivery schedules. • One-time or periodic, specific collection additions and/or general annual budget increase. • Share of new library collection initial purchase. |
| Requirements to Use | Board approval via annual budget process or separate resolution. |
| Funding Source and Annual Requirement | <ul style="list-style-type: none"> • 75% of fine revenue (to be phased in over a number of years, as approved by the Board during the annual budget process). • Materials budget surplus in a fiscal period. • Periodic allocation of the annual operating surplus as approved by the Board. |
| Funding Target | <ul style="list-style-type: none"> • \$X (target not yet set) per year, adjusted by inflation annually. • Target sufficiency review completed every 5-10 years. |

RESERVE: MEMBER SALARY AND BENEFIT

| | |
|--|--|
| <p>Description</p> | <ul style="list-style-type: none"> • Reserve holds a portion of actual salary and benefit surplus/deficits incurred at member library branches. • Surplus balance to be used by the respective members, for library services that would not normally be funded by FVRL. • Deficit balances, to be ultimately funded by the respective member over-time. • Funds from this reserve are accounted for as conditional grants. • All assets purchased with conditional grants from this reserve are owned by the respective member who is fully responsible for all related maintenance, insurance and other ongoing and replacement costs. • Independent, individual reserves are maintained for each member. |
| <p>Required Use of Funds</p> | <ul style="list-style-type: none"> • To provide or enhance library services to customers of FVRL. Examples of expenditures include one-time or periodic operating costs (including staffing) and/or capital expenditures (e.g. equipment, collections, furnishings or library building renovations/additions). • To fund: <ul style="list-style-type: none"> ○ Time-limited and/or special assessments by FVRL, or ○ Phase-in impacts of significant (beyond 10%) assessment increases. |
| <p>Requirements to Use</p> | <ul style="list-style-type: none"> • For expenditures less than, or equal to \$10,000, approval by respective member finance officer and library manager. • For expenditures greater than \$10,000, approval by respective member council and FVRL Board. • All payments are paid as grants upon proof of approved expenditure. |
| <p>Requirements to Fund Deficit Reserve Balance</p> | <p>The intent is for all member deficit balances to be funded over time through achievement of surpluses in future years. Accordingly, a member may maintain a deficit reserve balance for up to five years (or longer with Board approval). In any case, any deficit balance must be fully paid should a member sever services with FVRL.</p> |

| | |
|--|--|
| Reserve Balance Annual Adjustment | Each year, following completion of the annual audit, each member's reserve shall be adjusted by 50% of the extent to which annual actual salary and benefits are less than, or greater than, the approved budget for that Member's Library Branches considered in total. |
| Funding Target | None |

| RESERVE: i(dea)Centre AND INNOVATION | |
|--|--|
| Description | To provide financial support for i(dea)Centre initiatives and other initiatives that seek to improve customer service and/or organizational value (effectiveness, efficiency and economy). |
| Required Use of Funds | Fund time limited operating and/or capital expenses to investigate, test and/or implement select initiatives. |
| Requirements to Use | Executive management team <u>or</u> Chief Executive Officer approval. |
| Funding Source and Annual Requirement | <ul style="list-style-type: none"> • 25% of fine revenue (to be phased in over a number of years, as approved by the Board during the annual budget process). • Periodic allocation of annual operating surplus, as approved by the Board. |
| Funding Target | None |

DEBT

Short Term Debt (Less Than One Year)

With the approval of the Director of Finance, short term debt, to a maximum of \$6M (equal to about 3 months normal net operating expenses), may be borrowed to finance operating requirements in recognition that member assessment funds over 90% of net operating costs and is paid on a quarterly basis, at the end of each quarter.

Long Term Debt (Including Capital Leases)

Long term debt shall only be incurred for capital purposes and the debt term shall not exceed the useful life of the capital works for which it is incurred.

Annual debt servicing expenditures on long term debt shall be no greater than the target of 10% of "Revenue." Revenue is that reported in the last audited financial statements, excluding transfers (grants) for capital purposes with further adjustments to normalize revenue to remove significant one-time amounts.

To the degree that target is not met, recommendations to meet the target shall be developed, and considered by the Board in conjunction with the annual budget process.

All long term debt must be approved by resolution of the Board.

USE OF FUNDS

EMPLOYEE SALARIES AND BENEFITS

All employee positions that become vacant (i.e., incumbent employee retires, leaves FVRL, or otherwise gives up ownership of/right to position) must be reviewed to identify options to improve position or organizational effectiveness and/or reduce financial impacts.

Review and recommendations regarding positions and use of funds are to be completed by the respective manager in consultation with the supervising director. Approval of recommendations by the Chief Executive Officer must be received prior to a recommendation's implementation.

The requirements of this section do not apply to page, temporary or casual/on-call positions, which shall be reviewed and position replacements filled in accordance with the requirements of the supervising director.

NON-CURRENT LIABILITIES

Member assessment fees shall be set to fully fund the amount of all non-current liabilities (e.g., post-retirement benefits, longer term sick leave) as applicable attributed to, and estimated to be, costs of providing services in the respective year in accordance with Public Sector Accounting Board Standards.

To the extent that non-current liabilities have not been funded in past years, recommendations to fund the accrued but unfunded balance shall be developed and considered by the Board in conjunction with the annual budget process.

INVESTMENTS

Cash investments will be made first to protect and maintain principal and then to maximize returns.

Liquidity of investments will align with capital and operating needs.

Investments are strictly limited to the types of investments that may be invested by BC municipalities under the *Community Charter*.

At least 80% of available cash investments shall be made with the Municipal Finance Authority of BC.

DEFINITIONS

BASE BUDGET

A base budget is a budget that will fund the same level of services as provided in the prior year, plus changes thereto specifically approved by the Board, but not yet fully implemented (e.g. approved fee increase, approved new service) or resulting from capital expenditures in the prior year (e.g. building of a new library). The base budget is equal to the prior year's budget adjusted to reflect:

- Current year costs and revenue changes due only to growth, inflation, contract/price changes, etc., to support the same level of service as provided in the prior year.
- Service changes already approved by the Board.
- Removal of one-time items.

Annualized changes in services or fees that took place part way through the prior year.

CAPITAL FUNDING ENVELOPE (CFE)

A fixed, annualized amount that, if funded, would be sufficient to fully fund the related capital expenditures. Typically developed by major asset category as part of the development of the respective long term capital plan.

LIFECYCLE COSTS

Lifecycle costs are the total cost of an asset throughout its life including planning (engineering and design), construction/acquisition, operation, maintenance, rehabilitation, and disposal costs.

MEMBER

A member is a municipality or regional district which has entered into an agreement under the *Library Act* to be a participant in the Fraser Valley Regional Library District.

NET OPERATING BUDGET / NET OPERATING EXPENSES

Net operating budget/net operating expenses is equal to total operating expenses excluding amortization expenses, plus materials capital expenditures, less all operating revenues other

than member assessment. Operating revenue and expenses are those sources and uses of funds meeting the definition of a revenues and expenses under Public Sector Accounting Board Standards.

PUBLIC SECTOR ACCOUNTING BOARD

The Canadian Accounting Board that sets financial reporting standards for Canadian government and not-for-profit organizations. Provincial legislation requires all provincial organizations, local governments and not-for-profits, to prepare annual audited financial statements in accordance with Public Sector Accounting Board standards.

RESERVES

Reserves:

- are funds that would otherwise be part of surplus, that have been designated by decision of the Board and/or management to be used for a specific purpose.
- are usually backed by actual cash resources but at any point in time may be backed by accounts receivable.
- may be redirected at any point in time by the Board to another purpose.
- balances either were specifically budgeted for or were created via a transfer from available surplus funds.

SERVICE LEVEL REDUCTION, ENHANCEMENT OR FEE CHANGE, DECISION PACKAGE

A decision package is an independent service change request. A decision package can be for either service enhancements or reductions, or fee change proposals.

- **Service Enhancements** detail proposed increases in service levels over the prior year's budgeted service levels
- **Service Reductions** detail proposed decreases in service levels over the prior year's budgeted service levels

- **Fee Change** details proposed **new** fees or increases in existing fees **not** already approved by the Board but **not** due to growth

Decision Packages may be for one-time items (e.g., Library 25th Anniversary Celebrations) or for ongoing items (e.g., new Librarian position). Decision packages should be independent of other budget items and be material (>\$10,000) to the decision making process.

SURPLUS

Surplus is accumulated financial assets resulting from past (i.e., since the inception of FVRL) total revenues being in excess of total expenses, less any funds that have been “appropriated” into a Reserve Fund. Financial assets include all assets that are cash or will be cash in the normal course of operations. They do not include capital assets, prepaids, or inventory.

A surplus:

- is usually backed by actual cash resources but at any point in time may be backed by accounts receivable.
- is funds that may be used for any legal purpose of FVRL.
- can be created intentionally (e.g., by specifically budgeting and funding an addition to) or unintentionally due to actual net operating expenses coming in less than budget.

SUSTAINABILITY

Sustainability is the ability to endure and thrive.

- **Sustainable Community**
A sustainable community is broadly defined as “...meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.” The three main pillars, or areas of consideration/need, of a sustainable community are the economy, environment and social:

- **Economy:** the need to be financial and economically viable.
- **Environment:** the need for the natural resources to be protected and to function at a high level.
- **Social:** the need for individual and overall social wellbeing, including public health and safety.

A sustainable community is a community with a robust, resilient economy serving a strong, equitable society within a highly functioning natural environment.

Also see definition of Sustainability and Financial Sustainability.

- **Financial Sustainability (For Non-Profits)**

Financial sustainability (for non-profits) is the ability to maintain an organization's services in accordance with its mission over the long term. Sustainable organizations have the ability to seize opportunities and react to unexpected threats while maintaining the general operations of the organization (referred to as financial resilience). An organization will not be sustainable if it does not provide social value at least equivalent to its costs.

VALUE FOR MONEY

Value for Money (VFM) is defined as the achievement of the 3E's - Economy, Efficiency and Effectiveness.

- **Economy:** minimizing the cost of resources ('doing things at a low price').
- **Efficiency:** performing tasks in the best possible manner with the least waste, including using requisite knowledge, skill, and industry ("doing things the right way").
- **Effectiveness:** the extent to which goals and objectives are met ('doing the right things').

Value for Money is about delivering low cost services in the best possible manner that meet the needs and priorities of the community in a way that respects and properly values the environment in which the service is delivered.