

---

## Board Direction and Oversight

---

Reserve funds can be excellent financial planning tools when combined with a realistic analysis of future financial needs and obligations. All too often, however, reserve funds are established and substantial cash is accumulated without due diligence in monitoring the reasonableness of reserve fund balances. To help ensure that reserve funds are being properly established for an authorized and needed purpose, and the balances in existing reserve funds are not accumulated excessively or unnecessarily, governing boards should answer the following questions:

- Has legal counsel provided guidance on the authority to establish new reserve funds? Has the financial need or purpose served by the reserve been identified? Does the reserve fit within or complement the long-range financial or capital plans of our locality?
- Has a written reserve fund plan or policy been developed? What events and obligations is the board planning for? Is cash being accumulated for the purchase of a major piece of equipment or to help finance other major capital outlays? Is cash being sequestered to help mitigate the impact of other large, nonrecurring expenditures? Are there risks that need to be protected against? Does the board's policy address replenishing depleted reserve balances, as appropriate?
- Is the board provided with periodic financial reports on reserve fund activity? Are reserve balances at an appropriate level?
- Has the board reviewed all reserve funds currently established and determined if the balances are necessary and reasonable? Is there a limit on the dollar amount to be accumulated? Is the reserve serving the purpose for which it was established? Are the best interests of the taxpayers being met?

Any governing board that is planning to establish and finance reserve funds on a regular basis should develop a written policy that communicates to taxpayers why the money is being set aside, the board's financial objectives for the reserves, optimal funding levels, and conditions under which the assets will be utilized. Boards should also periodically assess the reasonableness of the amounts accumulated in their reserves. When conditions warrant (subject to legal requirements), the board should reduce reserve funds to reasonable levels or liquidate and discontinue a reserve fund that is no longer needed or whose purpose has been achieved.

Reserve funds can be excellent financial planning tools when combined with a realistic analysis of future financial needs and obligations.