

PUBLIC LIBRARY FINANCIAL MANAGEMENT GUIDE

LIBRARY OF MICHIGAN

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Public Library Financial Management Guide

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Public Library Financial Management Guide

Preface

The Financial Management Reference Guide was developed to provide library directors, staff, and board members with helpful information for performing accounting and financial management functions. The guide is intended to answer frequently asked questions, describe common practices and processes, provide examples and suggested formats for selected financial reports and help individuals recognize issues that may require outside assistance.

The guide has been organized to cover a summary of basic accounting items in the first few chapters and then detailed explanations of various areas in later sections. Further, an attempt has been made to arrange each chapter such that summary information is provided up front with more detailed information and exhibits to follow. Clickable links to the Glossary of Terms and certain helpful websites are provided throughout as well as bookmarks to assist with navigation through the entire document, which is optimized for electronic viewing and use although it can be printed in its entirety if desired.

Although the guide has relevant information for libraries of various types and sizes, it is more focused toward governmental unit libraries. Also, the Reference Guide provides basic information and is a helpful tool however, it is not possible for it to cover every anticipated question on library accounting, budgeting, and financial reporting. Seek assistance, as needed, from your accounting and legal advisors.

Public Library Financial Management Guide

Chapter 1 - Accounting for Libraries

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with a simplified introduction to accounting principles and financial reporting. A brief outline of the chapter follows:

- Section 1 - Introduction to Library Accounting
- Section 2 - Basis of Accounting
- Section 3 - Types of Funds
- Section 4 - Annual Financial Statements
- Section 5 - Types of Accounting Transactions
- Section 6 - Double **Entry** Accounting and Journal Entries
- Section 7 - Governmental Accounting Standards Board (GASB)
- Section 8 - Miscellaneous Items

SECTION 1 INTRODUCTION TO LIBRARY ACCOUNTING

PURPOSE OF AN ACCOUNTING SYSTEM

The purpose of an accounting system is (a) to show that all applicable legal provisions have been complied with; and (b) to represent fairly and accurately the financial position (**Balance Sheet**) and results of financial operations (Income Statement) of the library's funds.

USERS OF LIBRARY FINANCIAL INFORMATION

1. Taxpayers
2. State Treasurer/Oversight Bodies
3. Administrative/Finance
4. Bond Rating Agencies
5. Intergovernmental (Grantors)
6. Contributors/Creditors
7. Employees (and their unions)

FUNCTION OF **ACCOUNTING**

- Gather financial information

Financial information includes **revenue** received and expenses paid, generally in the form of transactions and documentation that supports them. The accounting function provides a mechanism to collect all this information so it can be summarized for further use.

- Record financial information

Once financial information is gathered, that information needs to be recorded and preserved for future reference. Financial information is commonly recorded in a **general ledger** using automated accounting software (i.e., QuickBooks, BS&A, Sage, and others). It is recommended that your library use automated accounting software. If for some reason your library can not utilize automated accounting software, entries will need to be recorded in a manual general ledger. The manual general ledgers should be maintained in Microsoft Excel© or similar spreadsheets to aid in summarization of totals and other calculations.

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Chapter 1 - Accounting for Libraries

SECTION 1 INTRODUCTION TO LIBRARY ACCOUNTING (CONTINUED)

FUNCTION OF ACCOUNTING (CONTINUED)

- Analyze financial information

An organization's accounting function is not only responsible for gathering and recording financial data, but also for helping users to interpret that data and present it to others in a format that can be understood. This information is critical to decision makers. For instance, a library may notice that it is incurring significant costs for electricity. The Board of Directors may see this and decide to explore ways to reduce electricity costs for the coming year.

- Present financial information

The accounting function is used to present financial information in a consistent format. This presentation enables interested parties to make effective and knowledgeable decisions regarding the library even if they have no other contact with the library's operations or employees.

SECTION 2 BASIS OF ACCOUNTING

The Library's **financial statements** comprise data generated by the organization's operations during each accounting period. An accounting period is a uniform length of time (such as a year) which serves as a basis for reporting and analyzing your financial performance.

Basis of accounting refers to the timing of when revenues and expenditures/expenses are recognized. There are three common methods of accounting for funds: **cash basis**, modified-accrual, and full accrual.

CASH BASIS

- Revenues are recorded when cash is received.
- Expenses are recorded when cash is paid.

The cash basis method is similar to a checkbook and is generally the simplest method. Many smaller libraries operate on a cash basis. However, **generally accepted accounting principles** (GAAP) require modified-accrual and full accrual accounting to be used for the annual financial statements.

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SECTION 2 BASIS OF ACCOUNTING (CONTINUED)

MODIFIED-ACCRUAL BASIS METHOD

In accordance with GAAP, the **modified accrual basis** is required for **governmental funds**.

- Revenue is recognized when susceptible to accrual (i.e., when revenues become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay **liabilities** of the current period. The length of time generally used to define “available” for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash.
- Expenditures are recorded when incurred (i.e., when the goods are received or the services rendered), not when cash is paid or when an invoice is received.

FULL ACCRUAL BASIS

The full accrual basis is used to report the **government-wide financial statements**. After the accounting records of the individual funds have been completed on the modified accrual basis, then the library will also present government-wide financial statements on the full accrual basis. These government-wide statements are part of their audited financial statements. This basis of accounting measures **total economic resources**, rather than just the **current financial resources**. As a result,

- Revenue is recorded when earned, regardless of when it is received.
- Expenses are recorded as soon as a liability is incurred, and are allocated to the periods benefited.

SECTION 3 TYPES OF FUNDS

Funds that a governmental entity would use are divided into three broad categories: Governmental funds, Business-type funds, and Fiduciary funds. Governmental funds are the most frequently used by libraries. These funds include the **general fund** (main operating fund), **special revenue** funds, **debt service** funds and **capital project** funds. Business-type funds are not commonly used by libraries. These would be used for any activity that is intended to be self-sustaining and is funded by user fees. Fiduciary funds are amounts held on behalf of others for specific purposes.

Following is a list of the typical funds which may be found in accounting for libraries:

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SECTION 3 TYPES OF FUNDS (CONTINUED)

GENERAL FUND

The General Fund accounts for all revenue and expenditures that are not required to be accounted for elsewhere. This fund typically accounts for the daily revenue and expenditures necessary to operate and provide service of a library. Most revenues and expenditures are recorded in this fund. In many cases, this may be the only fund the library maintains.

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. In many cases, the use of the separate fund is mandatory. Typical special revenue activity might include certain **grants** or donated funds.

DEBT SERVICE FUNDS

Debt Service Funds are used to account for the annual payment of **principal**, interest and expenses in connection with certain long-term **debt**. The proceeds from **bond** issues or other types of debt are typically recorded in the General or Capital Project Funds, depending on the stipulations of the debt issuance. Debt service fund resources are typically received via special voted property tax levies or transfers from other funds.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the development of capital facilities, such as an addition to a building. Typically, this fund is established to account for the construction of **capital assets** or to set aside money for future capital needs. In many cases, the use of Capital Projects Funds is optional.

PRIVATE PURPOSE TRUST FUNDS

Private Purpose Trust Funds should be used to account for all other trust arrangements under which principal and income benefit individuals, private organizations or other governments.

PERMANENT TRUST FUNDS

Permanent Trust Funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Library's programs.

There are other funds such as Investment Trust Funds, Pension Trust Funds, and Agency Funds that are not typically used by libraries.

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SECTION 4 ANNUAL FINANCIAL STATEMENTS

All governments in Michigan are required to prepare annual financial statements, have them audited, and submit them to the Michigan Department of Treasury for inspection and to be posted on treasury's website. More detailed information is given on this in [Chapter 7](#), but this section is intended to provide a basic understanding only.

The annual financial statements are composed of two main sections; the basic financial statements and supplementary information. The basic financial statements include the "balance sheet" and "income statements" (to use more common terms) and also the [notes to the financial statements](#). Supplementary information includes the [Management's Discussion and Analysis](#), [Independent Auditor's Report](#), and other items such as budgetary comparison schedules, combining statements, and any other information such as debt or capital asset schedules the library may elect to include.

The basic financial statements include both the Government-Wide Financial Statements and the Fund Financial Statements. The government-wide financial statements have two parts: a [Statement of Net Position](#) and a [Statement of Activities](#). The Statement of Net Position includes long-term assets. In the Statement of Activities, you can see the trends in expenses over time as well as where the revenue comes from. The Statement Activities separates the sources of income into business-related and government-related categories, then combines them to provide a primary government total. The fund financial statements present the library's [major funds](#) individually and nonmajor funds in the aggregate. The governmental funds are shown on the modified accrual basis, while [proprietary funds](#) and the government-wide financial statements are shown on the full accrual basis.

In addition to the basic financial statements, libraries are required to include supplementary information. Part of the supplementary information is a budgetary comparison schedule that tracks the progress over the course of the fiscal year of the general fund and each major special revenue fund for which the library legally adopts a [budget](#). The budgetary comparison may also be presented as a basic financial statement, at the option of the library. Please consult with your [independent auditor](#) for assistance in making this choice. The Management Discussion and Analysis (MD&A) is also [required supplementary information](#). The MD&A provides a narrative explanation, through the eyes of management, of how an entity has performed in the past, its fiscal condition, and its future prospects.

SECTION 5 TYPES OF ACCOUNTING TRANSACTIONS

This section discusses and defines the primary types of accounting transactions and related records that are used to provide an accurate picture of the financial position and operating results of a library. This section also includes information on how most accounting transactions should be documented. However, this section is not intended to be an all-inclusive listing of accounting documentation.

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Chapter 1 - Accounting for Libraries

SECTION 5 TYPES OF ACCOUNTING TRANSACTIONS (CONTINUED)

The most common types of accounting transactions are:

- Cash receipts

Cash **receipts** (i.e., fundraising, fines, fees for services, etc.) should be supported by a **remittance advice**, receipt, copy of **check**, or other appropriate supporting documentation. All transactions should include at least the following information:

- The date the cash was received.
- The name of the person/organization giving/paying the cash.
- Purpose of the payment (classification).
- The amount of cash received.

- Cash disbursements

Cash **disbursements** (i.e., recurring and one-time expenses) should be supported by an invoice and evidence of receipt of the goods or services. Except for **petty cash** purchases, all disbursements should be in the form of a check or electronic payment. All transactions should include at least the following information:

- The date of the disbursement.
- The name of the payee.
- The check number.
- The check amount.

- **Accounts receivable**

Receivables are revenues that the library has recognized (earned) but not yet collected. These should be supported by at least the following information:

- Due date of the receivable.
- Name of the person/organization that will give/pay the cash.
- Purpose of the billing (classification).
- The amount of cash expected.

An example of this would be if the Library billed someone for services or a reimbursement.

- **Accounts payable**

Payables are expenditures that the library has not yet paid in cash. These should be supported by at least the following information:

- Due date of the disbursement.
- The name of the payee.
- Amount of the disbursement.
- A description of what the payment is for.

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Chapter 1 - Accounting for Libraries

SECTION 5 TYPES OF ACCOUNTING TRANSACTIONS (CONTINUED)

- Payroll

Payroll records should include the employee's name, hours worked supported by a timesheet (for hourly employees), gross pay, deductions, and net pay. Totals for a payroll period are posted to accounts such as salaries expense, federal income tax withheld, and cash.

Payroll will generally be run in your accounting software or a third party payroll provider will do it. The automated accounting system will generally record those transactions automatically. For a third party provider, payroll will need to be recorded by a journal entry.

TYPES OF ACCOUNTS

To keep the Library financial data organized, a system is developed that sorts transactions into groups of records called **accounts**. When your accounting system is set up, the accounts most likely to be affected by the Library's activities are identified and listed out. This is referred to as the Library's chart of accounts (see below). Within the chart of accounts, the balance sheet accounts are listed first, followed by the income statement accounts. In other words, the accounts are organized as follows:

- **Assets**
- **Liabilities**
- **Fund Balance/Net Position**
- **Revenues**
- **Expenditures/Expenses**

CHART OF ACCOUNTS

A chart of accounts is an organized listing of all accounts used by a library to record financial information in its general ledger. The chart of accounts is to the accounting function what the Dewey Decimal System is to a library. It provides a foundation for arranging financial data into useful information. To provide reliable and consistent financial information, it is imperative that the chart of accounts be simple and functional. Accordingly, a "Uniform Chart of Accounts" has been developed by the State of Michigan under Public Act 2 of 1968, as amended, for all Michigan units of government including public libraries. See the Department of Treasury website for the [Uniform Chart of Accounts](#).

GENERAL LEDGER

The general ledger is used to summarize all accounting transactions. In the automated accounting system, posted transactions will automatically flow to the general ledger. The general ledger is a listing of all accounts the library uses (chart of accounts).

The accuracy of the balances in certain accounts should be verified via reconciliation. For example, the balance in your operating cash account should be reconciled to the corresponding bank statement monthly. The balances in receivables and payables should agree with the balances in their receivable and payable **aging reports**.

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Chapter 1 - Accounting for Libraries

SECTION 6

DOUBLE ENTRY ACCOUNTING AND JOURNAL ENTRIES

DOUBLE ENTRY ACCOUNTING

The double entry accounting method requires at least two entries (debit and credit) to be made for each transaction. After you have identified the two or more accounts involved in a transaction, you must debit at least one account and credit at least one account.

Generally these type of accounts are increased with a debit:

- Expenditures/expenses
- Assets

Generally these type of accounts are increased with a credit:

- Revenues
- Liabilities
- Fund Balance/Net Position

To decrease an account, you do the opposite of what was done to increase the account. For example, an asset account is decreased with a credit.

JOURNAL ENTRIES

Journal entries are used to record transactions that do not originate as a cash receipt, cash disbursement, billing, or invoice.

When making journal entries it is vital to verify it balances (i.e., debits should equal credits), that the entry was made all in the same fund, and each line of the entry was posted on the same date. If the entry does not balance, is not in the same fund, and not on the same date, an error was made and needs to be fixed. Accounting software programs can help you and verify that entries balance properly.

The Library should maintain supporting documentation for all journal entries. This would include:

- Date of entry
- Journal entry reference number
- The account numbers affected
- The account names
- The debit and credit amounts
- A detailed explanation of the entry
- Identification of the individual who made the entry

There are three types of journal entries:

- Standard Journal Entries

These are recurring entries that are prepared at regular intervals (e.g., monthly). In an automated accounting system, these transactions can be set up to post automatically.

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Chapter 1 - Accounting for Libraries

SECTION 6

DOUBLE ENTRY ACCOUNTING AND JOURNAL ENTRIES (CONTINUED)

JOURNAL ENTRIES (CONTINUED)

- Reversing Journal Entries

These are entries that reverse certain standard journal entries recorded in the prior period, if applicable. This is done to avoid double counting cash receipts or cash disbursements in the following period. Reversing entries are most often used with accrual-type adjusting entries.

For example, at the end of the fiscal year, the Library will record a journal entry for the accrual of wages that were paid subsequent to year end that related to the current fiscal year. Therefore, at year end the library will debit the expenditure (i.e., salary expense) and credit accrued wages. On the first day of the next fiscal year, the Library will reverse this journal entry by debiting accrued wages and crediting the expenditure. When employees are actually paid, the debit to expense is offset by the credit of the reversing entry, placing the expense into the prior period.

- Nonstandard Journal Entries

These entries are utilized when recording transactions that generally are not recurring in nature. In other words, they are utilized to record infrequent transactions, to make corrections to amounts previously recorded, or to reclassify amounts previously recorded to different accounts.

SECTION 7

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

The GASB was established as an arm of the Financial Accounting Foundation in April 1984 to set standards for financial accounting and reporting with respect to activities and transactions of state and local governmental entities. The GASB sets Generally Accepted Accounting Principles (GAAP) for all governments in the United States.

GASB Concepts Statement 1 states: "Governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social, and political decisions." In order to meet these overall objectives, the GASB has issued the following guidelines regarding financial reporting:

ACCOUNTABILITY

Financial reporting should assist in fulfilling a government's duty to be publicly accountable and should enable users to assess that accountability. To accomplish this goal, financial reporting should meet the following criteria:

- Provide information to determine whether current year revenue was sufficient to pay for current year services.
- Demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget; it should also demonstrate compliance with other finance related legal or contractual requirements.

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SECTION 7 GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) (CONTINUED)

ACCOUNTABILITY (CONTINUED)

- Provide information to assist users in assessing the service efforts, costs and accomplishments of the governmental entity.

DECISION-MAKING

Financial reporting should assist users in evaluating the operating results of the governmental entity for the year. To accomplish this objective, financial reporting should also meet these criteria:

- Provide information about sources and uses of financial resources.
- Provide information about how the governmental entity financed its activities and met its cash requirements.
- Provide information necessary to determine whether the entity's financial position improved or deteriorated as a result of the year's operations.

SECTION 8 MISCELLANEOUS ITEMS

LIBRARY TYPES

There are a variety of library types and sizes. State laws governing how a library is established, levies taxes, issues and pays for debt, qualifies for state-shared revenue and performs other business functions vary depending on the type and size of a library. Refer to the [Library Laws Handbook](#) and the [District Library Law Handbook](#) from the Library of Michigan for detailed information concerning legal matters for the type and size of your library.

There are six different types of Michigan public libraries:

- City
- County
- District
- School District
- Township
- Village

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Chapter 1 - Accounting for Libraries

SECTION 8 MISCELLANEOUS ITEMS (CONTINUED)

GRANTS

Libraries often receive grants and other revenue from various federal and state agencies. In connection with these, recipients agree to comply with various statutes and regulations that accompany the grants. The various statutes and regulations may vary among libraries, thus every library should follow its own agreement accordingly. Typically, most agreements are pass-through monies (i.e., federal money provided to large organizations such as the State of Michigan which then provide grants to many organizations). These types of grants are usually reimbursement in nature and as expenditures are incurred, revenues are **accrued**. In addition, some statutes and regulations require that **certified public accountants** perform audits of libraries to test the compliance with these statutes and regulations in addition to performing financial audits (see Audit Process chapter). This is called a “**Single Audit**”.

RECORD RETENTION

Under MCL [399.5](#) and [750.491](#), government agencies must keep official books and records in accordance with the provisions of an approved Retention and Disposal Schedule. The Michigan Department of Technology, Management and Budget offers instructions and links to the appropriate retention and disposal schedule at michigan.gov. A library may adopt its own record retention and disposal plan and submit it for approval by the Records Management Service.

TAX EXEMPT STATUS

The General Sales Tax Act and Michigan Sales and Use Tax Administrative Rule, generally provides that governmental and not-for-profit library purchases are not subject to sales and use tax. Michigan Department of Treasury [Revenue Administrative Bulletin 2002-15](#) describes sales and use tax exemption claim procedures and formats and provides the Michigan Sales and Use Tax Certificate of Exemption form. Typically, a library will provide its vendors with a blanket certificate of exemption at the time of purchase.

SELECTION OF ACCOUNTING SOFTWARE

There are a number of factors to consider when selecting accounting software. This is true for both large and small library organizations. Key steps involved in selecting accounting software include the following:

- Assess Existing Resources
Determine current resources in terms of software, hardware and funding.
- Assess User Requirements
Survey individuals that will be using the software to determine needs/desires over the near-, medium-, and long-term, volumes of transactions in the near- and long-term and expectations concerning the potential benefits to be gained from use of the software.

Public Library Financial Management Guide

Chapter 1 - Accounting for Libraries

SECTION 8 MISCELLANEOUS ITEMS (CONTINUED)

SELECTION OF ACCOUNTING SOFTWARE (CONTINUED)

- Identify Available Software

Identify available software by surveying similar organizations, reading articles and software directories, attending trade shows, or contacting consultants. Make an initial determination of potential vendors.

- Evaluate Vendors

For entry or mid-level “off-the-shelf” software packages, evaluation of vendors may be accomplished by identifying the perceived strengths and weaknesses of the different packages based on research conducted before making a final determination. For other software packages, a more formal selection process may be undertaken. This could include developing detailed software specifications, soliciting bids from potential qualified bidders, evaluating bid responses, and attending vendor demonstrations prior to making a final determination. Factors to evaluate include, but are not limited to the following: ease of use, vendor knowledge, stability and support; flexibility, expandability, security, ability to track needed information, and ability to access needed information.

- Implementation

Once software has been selected and purchased, a strategy should be developed for how to implement the software. Establish dates for accomplishing specific tasks. Regularly review progress of implementation. A rule-of-thumb is to run both the old and new systems (run parallel systems) for a period of time to ensure that a backup exists if problems occur with the new system. This is typically time-consuming and, therefore, should be taken into account when planning the implementation.

Public Library Financial Management Guide

Chapter 2 - Assets and Deferred Outflows

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with an understanding of common assets and deferred outflows on a library's balance sheet.

- Section 1 - Current assets
- Section 2 - Noncurrent assets
- Section 3 - Deferred outflows of resources
- Section 4 - Related policies

LEARNING PRE-REQUISITES

In order to effectively use this chapter of the manual, the user should first read Chapter 1 - "Accounting for Libraries", with particular emphasis on Section 2 - "Basis of Accounting" and Section 4 - "Annual Financial Statements".

SECTION 1 CURRENT ASSETS

Current assets are on both the fund level (modified accrual basis) balance sheet and government-wide (full accrual basis) statement of net position. These assets are readily convertible to cash or cash equivalents and can be used to satisfy library obligations during the course of the upcoming year. Common current assets include:

- **Cash and cash equivalents:** This consists of checking, savings, money markets, and **certificates of deposits** (CDs) with original maturities of 3 months or less.
- **Investments:** Typically, these are CDs with maturities greater than 3 months. It can also include other types of investments such as bonds, **securities**, and other obligations of the United States or an agency of the United States, or **mutual funds**. **Public Act 20 of 1943** regulates the type of investments available for investing by a library.
- **Accounts receivable:** As described in Chapter 1, accounts receivable is revenue earned during the current period, but not yet collected as of the end of the year. An example of this would be late fees assessed by the library, but not paid by the user.
- **Taxes receivable:** Similar to accounts receivable, taxes receivable recognizes tax revenue that was earned during the current period but not yet collected. Depending on how the library is organized, these amounts could be due directly from the taxpayers or from another government (county, city, township, etc.)
- **Due from other governments:** This consists of amounts collected by other governments on behalf of the library, such as state shared revenue. It can also be federal or state grant revenue earned by the library but not yet received.
- **Due from other funds:** If the library has more than one fund, certain transactions may occur between funds. They generally fall into two categories of transactions. The first is when one fund will pay for a good or service and another fund receives the benefit of a portion of that purchase. The other type is when one fund directly provides a service to another fund. Due from other funds only occurs at the fund level.



Public Library Financial Management Guide

Chapter 2 - Assets and Deferred Outflows

SECTION 1 CURRENT ASSETS (CONTINUED)

- **Prepays:** When expenditures benefit a subsequent period, a prepaid asset is recognized. A common example of this prepayment is liability insurance. If a library's year end is December 31, 2013 and liability insurance coverage is January 1 - December 31, the payment of the 2014 insurance premium in December 2013 would be recognized as a prepaid as of December 31, 2013.
- **Accrued interest receivable:** Interest earned on investments but not yet received as of year-end.

SECTION 2 NON-CURRENT ASSETS

Non-current assets are not readily convertible to cash and have a useful life of more than one year. Common non-current assets include:

- **Investments:** Securities, CDs, bonds, etc, with maturity dates of more than one year.
- **Capital assets:** Capital assets are typically larger purchases with a useful life of more than one year. Examples of capital assets include land, construction in progress, buildings, equipment, land improvements, works of art, collections, and vehicles.

Each year, capital assets are depreciated and the value reduced as the asset's useful life is used up. Depreciation is only recorded on the government-wide financial statements. Generally, depreciation is used to spread the expense for an item out to the periods that it benefits. In order to calculate annual depreciation expense, the library must estimate what the useful life of the item is. The useful life is generally expressed in a number of years and should approximate the length of time the asset will be in use. Depreciation is calculated using the straight-line method, which simply divides the cost by the number of years to arrive at the annual expense amount.

Libraries have the option to record their annual investment in books, periodicals, and other library materials as capital assets or to simply expense each year. A library may choose to record these items as capital assets (i.e., "capitalize" them) in order to show stakeholders how much is invested each year and the related depreciation then needs to be calculated and recorded. A library may also choose to expense these items each year as routine purchases and essentially "supplies". Either method is acceptable.

SECTION 3 DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources represents a consumption of resources that is applicable to a future period that will be reported in a separate section following assets in the statement of financial position. Deferred outflows can be shown at either the fund level, government-wide level, or both. Some examples of deferred outflows of resources are: long-term receivables, deferred amounts from debt refunding or changes in lease obligations, cost to acquire rights to future revenues, and deferred loss from sale-leaseback transactions.



Public Library Financial Management Guide

Chapter 2 - Assets and Deferred Outflows

SECTION 4 RELATED POLICIES

There are certain Board policies a library should adopt in association with the assets listed above. There are certain requirements or best practices that should be contained in each policy. Sample policies can be found at [Appendix 3](#).

INVESTMENT POLICY - This is required by Public Act 20 of 1943 (MCL 129.95). The following are minimum requirements:

1. Indication of the purpose, scope, and objectives. Safety of the investments, diversification, liquidity, and return on investment should also be addressed.
2. Delegation of authority to make investments. In other words, who will be the party responsible for making investment decisions?
3. A listing of authorized investments. The authorized investments must comply with Public Act 20 of 1943 but, a library can choose to be more restrictive than the Public Act.
4. How the library will ensure the safekeeping and custody of the investments and the prudence of investments.

Libraries have deposits and investments that are subject to various risks. The Governmental Accounting Standards Board ([GASB Statement](#) No. 40 addresses these risks that they identify as credit risk, interest rate risk, and foreign currency risk. Libraries should include in their investment policy the type of risks they are exposed to and how they are addressing these risks.

CAPITAL ASSET POLICY - Each library should have a policy indicating the dollar threshold where an item is considered a capital asset and the period of time each type of asset is depreciated over. Purchased capital assets should be recorded at cost. Donated capital assets are valued at the estimated fair market value of the asset.

FRAUD RISK MANAGEMENT POLICY - A policy should be developed and formally implemented that is the appropriate size and complexity of the library. Such a fraud risk management policy may involve actively searching for fraudulent transactions, but should also inform management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the library, and instructions for reporting fraud with in the chain of command.

WHISTLEBLOWER PROTECTION POLICY - A whistleblower policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the library, it specifies the library will protect the individual from retaliation, and identifies those staff or board members or outside parties to whom such information can be reported.

UNCLAIMED PROPERTY - Unclaimed property is tangible or intangible property that is unclaimed by its rightful owner. The most common form of unclaimed property is un-cashed checks. Michigan's Unclaimed Property program is governed by the Michigan Uniform Unclaimed Property Act ([Public Act 29 of 1995, as amended](#)). Every library holding unclaimed property belonging to someone whose last known address is in Michigan must report. Each item needs to go through a "dormancy period" before it is considered unclaimed. The dormancy period for most property types is now three years, except wages and commissions which is one year. For example, unclaimed property reaching the end of its dormancy period as of March 31, 20XX must be reported and remitted to the State on or before July 1, 20XX. More information can be found in the [Manual for Reporting Unclaimed Property](#).



Public Library Financial Management Guide

Chapter 3 - Liabilities and Deferred Inflows

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with an understanding of common liabilities on a library's balance sheet. Liabilities are basically amounts that are owed to vendors, other governments, other funds, employees, or debt holders. An easy way to think about liabilities is if the library were to close at the end of their year, what would they owe to everyone. Liabilities are broken down into current and non-current classifications.

- Section 1 - Current liabilities
- Section 2 - Noncurrent liabilities
- Section 3 - Deferred inflows of resources
- Section 4 - Related policies and requirements

LEARNING PRE-REQUISITES

In order to effectively use this Chapter of the manual, the user should first read Chapter 1 - "Accounting for Libraries", with particular emphasis on Section 2 - "Basis of Accounting" and Section 4 - "Annual Financial Statements".

SECTION 1 CURRENT LIABILITIES

Current liabilities are on both the fund level (modified accrual basis) balance sheet and government-wide (full accrual basis) statement of net position. These liabilities are due within one year of the balance sheet date. Current assets are used to satisfy these obligations. Common current liabilities include:

- **Accounts payable:** Goods and services purchased by the library during the current fiscal year but not paid until the following year. For example if the Library received repair services on June 15 but does not receive an invoice until July 15. The amount owed for the repair services would be recorded as accounts payable at June 30.
- **Accrued payroll:** Payments owed to employees for work performed during the current fiscal year but not paid until the following year. For example, the accrued payroll as of June 30 would include all of the wages that the employees have earned as of June 30, but will not be paid until the following month. The employer's portion of FICA, unemployment taxes, worker compensation insurance, and other benefits pertaining to those wages should also be included as accrued payroll.
- **Due to other governments:** Amount payable to another government for a good or service provided during the current fiscal year. This is similar to accounts payable but these amounts are due to a government instead of a vendor.
- **Due to other funds:** Amounts owed for goods or services provided by one fund on behalf of another fund. All "due to other funds" and "due from other funds" should balance to zero (i.e., debits equal credits) within a library.
- **Long-term debt:** Within this liability an amount is segregated on the government-wide financial statements to show the current portion due to the debt holder within one year. See the discussion below in the "Non-Current Liabilities."



Public Library Financial Management Guide

Chapter 3 - Liabilities and Deferred Inflows

SECTION 1 CURRENT LIABILITIES (CONTINUED)

- **Compensated absences:** For the government-wide financial statements, this is the amount of vacation, sick, comp time, etc. to be estimated to be paid during the next year. See discussion below in the “Non-Current Liabilities”.
- **Accrued interest payable:** Interest expense associated with the long-term debt for the current year, but not paid until the following fiscal year.

SECTION 2 NON-CURRENT LIABILITIES

Non-current liabilities are only recognized on the government-wide financial statements (full accrual basis.) These amounts are due in more than one year. Common non-current liabilities include:

- **Long-term debt:** This includes obligations related to leases, bonds, bank notes, etc. There are many different types of long-term debt available to a library, including long-term bonds, anticipation notes, installment purchase contracts, and building authority bonds.
- **Compensated absences:** Amounts owed to employees under Board policy for unused vacation, sick, or comp time, also known as paid time off. The library should only record this liability if the amounts are payable to employees on termination. If these amounts never get paid out when an employee leaves, it is not a liability. In determining amounts that are current and non-current, the library should consider typical usage by employees during the year, and consider if there are retirement incentives or an employee with a large balance will be retiring in the upcoming year.

SECTION 3 DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources represents acquisition of resources that is applicable to future reporting periods that will be reported in a separate section after liabilities. Deferred inflows can be shown either the fund level, government-wide level, or both. Some examples of deferred inflows of resources are: unavailable revenue, deferred amounts from debt refunding or changes in lease obligations, proceeds from sale of future revenue, and deferred gain from sale-leaseback transactions.

Public Library Financial Management Guide

Chapter 3 - Liabilities and Deferred Inflows

SECTION 4 RELATED POLICIES AND REQUIREMENTS

There are certain Board policies and requirements a library should have in association with the liabilities listed above. The two primary are long-term debt and compensated absences.

LONG-TERM DEBT - There are different limitations and requirements placed on the library depending on the type of library.

- District libraries -
 - Governed by [Public Act 265 of 1988](#), MCL 397.281 through 397.290.
 - Bonds, loans, notes are limited to 5% of the state equalized valuation of the district's taxable property.
 - General obligation unlimited tax bonds are not allowed unless approved by the electors of the district by a majority vote.
- City/township/village libraries - Governed by [Public Act 164 of 1877](#), MCL 397.201 through 397.217.
- Township/village libraries -
 - Governed by [Public Act 5 of 1917](#), MCL 397.321 through 397.326.
 - Bonds must be approved by a majority of the electors, subject to the municipal finance act ([PA 34 of 2001](#)).
 - Bonds (or other borrowings) may not exceed 1% of the assessed valuation of the township or village.

The revised [Municipal Finance Act](#) requires that before a library can issue certain types of debt, it either must have qualified status (by submitting a qualifying statement) or apply to Treasury for prior approval if qualified status was denied. The Department of Treasury has up to 30 business days, or 6 calendar weeks, to evaluate a prior-approval application. The 30 business day review period begins on the date that Treasury deems the application "received", as opposed to the date the application is filed with Treasury. The Qualifying Statement is available online through the [Department of Treasury](#) and must be submitted online.

COMPENSATED ABSENCES - Each library should have a policy describing their compensated absences (also known as paid time off or PTO) accrual methods and procedures. This includes identifying how this time off is earned, for example, an employee could earned all of their PTO on their anniversary date. Or, PTO could be earned monthly or some combination of the two procedures. A library also needs to determine if PTO can be carried over from year to year on an unlimited basis, limited basis or not at all. There is no right or wrong with regards to this policy. Also, depending on how the library is formed, the county, city, township, etc, may determine this policy for the library.

Public Library Financial Management Guide

Chapter 4 - Fund Balance/ Net Position

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with a basic understanding of fund balance and net position. A brief outline of the chapter follows:

- Section 1 - Introduction to Fund Balance/Net Position
- Section 2 - Determining Appropriate Levels of Fund Balance
- Section 3 - Special Considerations
- Section 4 - Related Policies

LEARNING PRE-REQUISITES

In order to effectively use this Chapter of the manual, the user should first read Chapter 1 - “Accounting for Libraries”, with particular emphasis on Section 3 - “Types of Funds”; Chapter 2 - “Assets and Deferred Outflows”; and Chapter 3 - “Liabilities and Deferred Inflows”.

SECTION 1 INTRODUCTION TO FUND BALANCE/NET POSITION

A) DEFINITION

Fund balance is the difference between total assets plus deferred outflows of resources and total liabilities plus deferred inflows of a fund. Fund balance applies to the “fund level” reporting of individual governmental funds and based on the modified accrual basis of accounting. Fund balance measures the amount available to budget or spend in the future.

Net position is the difference between total assets plus deferred outflows of resources and liabilities plus deferred inflows of resources of the governmental entity taken as a whole. Net position applies to “government wide” financial statements. These statements utilize the full accrual basis of accounting. It measures the extent to which the government’s taxpayers have paid the cost of services provided to date.

B) CATEGORIES

Fund balance can be divided among five categories (in increasing order of restriction):

- Unassigned - The remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, regardless of which fund the **deficit** occurs.
- Assigned - This is determined by the governing body, the budget or finance committee, or a delegated library official. Assigned fund balance indicates the planned use of those amounts. The library can adopt a policy indicating who is authorized to assign amounts for specific purposes, otherwise this authority remains with the governing body. Refer to section 4 for more information.

Public Library Financial Management Guide

Chapter 4 - Fund Balance/ Net Position

SECTION 1 INTRODUCTION TO FUND BALANCE/NET POSITION (CONTINUED)

B) CATEGORIES (CONTINUED)

- Committed - These amounts are determined by a formal action of the library's highest level of decision making authority (for example, the Board). Committed fund balance is similar to Assigned, as it indicates how the money is intended to be used, but is more formal and can only be changed by Board action.
- Restricted - Consists of amounts that are required to be used for a specific purpose by external parties (i.e., creditors, grantors, contributors, or laws, regulations or enabling legislation).
- Non-spendable - These amounts consist of assets that are not available in a spendable form, such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near future. It also includes funds that are legally or contractually required to be maintained intact. This includes the corpus of a **permanent fund** or foundation.

Net position of government wide financial reports is classified among three categories:

- Net investment in capital assets - This component consists of total capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to those assets. Unspent **debt proceeds** and any long-term obligations not related to capital acquisitions should not be included in this calculation.
- Restricted - Restrictions on net position generally refer to constraints placed on the government by third parties or imposed by law through constitutional provisions or enabling legislation.

Major categories of restrictions should be disclosed either on the face of the financial statements or in the notes.

- Unrestricted - Unrestricted net position is the default category for items that do not meet the definitions of the other two categories.

Designations of unrestricted net position are not permitted to be reported on the face of the financial statements but may be disclosed in the notes.

C) RULE OF THUMB

The Government Finance Officers Association (GFOA) recommended best practice is that governments maintain unassigned fund balance of at least two months of either operating revenues or expenditures in their General Fund. The government (or library) should choose revenues or expenditures depending on which is more stable and predictable from year to year. Each library should consider their specific facts and circumstances when evaluating unassigned fund balance.

Section 2 provides guidance for adjusting this rule of thumb to an individual library's needs. Analysis of fund balance for specific funds will continue to be important since they reflect the current financial resources **measurement focus basis of accounting** and are an indicator of the ability to provide services on a near term perspective.

Public Library Financial Management Guide

Chapter 4 - Fund Balance/ Net Position

SECTION 1 INTRODUCTION TO FUND BALANCE/NET POSITION (CONTINUED)

C) RULE OF THUMB (CONTINUED)

There is more flexibility when analyzing net position at the government-wide statements. Analysis of net position often occurs in the preparation of the Management's Discussion and Analysis (MD&A) for the annual financial statements. In this section of the financial statements, management provides explanations as to why net position increased or decreased over the course of the past year. The analysis of net position is important as it is a measurement of the total economic resources measurement focus basis of accounting and is an indicator of the long term investment in economic resources that are necessary to provide services on a long term perspective.

SECTION 2 DETERMINING APPROPRIATE LEVELS OF FUND BALANCE

The library's determination of the appropriate amount of fund balance should be completed annually during the budgeting process. Each library needs to take into consideration their fiscal philosophy and future plans, needs or situations, such as:

- Planned capital asset purchases.
- Payment of compensated absences (vacation and sick time due to employees).
- Contingent liabilities
 - Lawsuits
 - Michigan Tax Tribunal (property tax value protests).
- Potential revenue reductions.
- Legal restrictions
 - Advance or unspent earmarked tax collections or other receipts.
 - Grants or contributions (endowments).
- Working capital needs based on expenditure patterns.
- Expectations about future economic conditions and governmental revenue sources, such as state shared revenue.

As mentioned in Section 1, the GFOA recommended best practice is for a government to maintain two months of revenue or expenditures in unassigned fund balance. In addition, the library should consider the following:

- Assets that are not spendable and unable to be used to pay for current operations (typically this includes inventory and prepaid expenditures).
- Amounts restricted, committed, or assigned based on requirements and activities of the library.

There is not a preconceived or correct amount of fund balance. The appropriate amounts depend on many facts and circumstances. The library's legislative body and management team should determine the appropriate amount each year, based on the factors listed above. Refer to the Budgeting chapter (Chapter 6) for further discussion.

Public Library Financial Management Guide

Chapter 4 - Fund Balance/ Net Position

SECTION 3 SPECIAL CONSIDERATIONS

A) FISCAL YEAR AND TAX YEAR

Consideration should be given to the library's fiscal year in relation to its tax collection period. Tax revenues are recognized in the period they are budgeted for, which is sometimes different from the year the tax is levied. Taxes levied and not collected in one year that are for the following year's budget should be classified as a receivable and deferred inflows of resources.

For example, a library with a December 31 year end may levy its tax on December 1, but collects most of the revenue in the beginning of the next fiscal year. This library recognizes all of the tax revenue in the year after the tax is levied. In contrast, a library with a June 30 year end collects its tax revenue during each fiscal year, the same year the revenue is budgeted for.

B) DEFICITS

State statutes require local units to adopt and file a deficit elimination plan in the event any governmental library fund has a fund balance deficit. [Michigan Department of Treasury Numbered Letter 2014-1 - "Deficit Elimination Plans"](#) further clarifies when a deficit elimination plan is required and how to determine the amount of deficit to be eliminated. If required, a deficit elimination plan should be sent to the following address:

State of Michigan
Local Audit and Finance Division
Department of Treasury
Treasury Building
Lansing, Michigan 48922

Call (517) 373-3227 with any questions.

SECTION 4 RELATED POLICIES

FUND BALANCE POLICY - The library is encouraged to create a Comprehensive Fund Balance Policy for the reporting of fund balance. The policy should address the following:

- The appropriate level of unrestricted fund balance to be maintained in the General Fund.
 - The desired level of unrestricted fund balance, expressed as either a minimum amount or a range between amounts.
- The circumstances in which unrestricted fund balances can be "spent down."
 - Example: If/When multiple classifications of fund balance are available for use, it is the Library's policy to use the most constrained resources first and then less constrained resource in a decreasing manner as they are needed.
- The policy for replenishing deficiencies.
 - This should consider any source(s) of funding and the time period for replenishment to occur.

See an example of a fund balance policy at [Appendix 3](#).

Public Library Financial Management Guide

Chapter 5 - Revenues and Expenditures

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with a basic understanding of the types of revenues and expenditures applicable to most libraries.

Section 1 - Revenues

Section 2 - Expenditures

LEARNING PRE-REQUISITES

In order to effectively use this chapter of the manual, the user should first read Chapter 1 - "Accounting for Libraries", with particular emphasis on Section 5 - "Types of Accounting Transactions".

SECTION 1 REVENUES

At the fund level, revenues are organized in the following categories: taxes, licenses and permits, intergovernmental, charges for services, fines and forfeits, interest and rents, and other. Not every library will have revenue in every category. This chapter will highlight key elements of applicable to libraries.

Taxes

In most cases, property taxes are the library's largest source of revenue. Property tax revenue is simply the taxable value of the property located within the library's service area multiplied by the millage rate. If a library believes it needs increase revenues, the issue can be taken to the constituents to approve a millage rate increase. The constituents also have to approve new millage rates when the old rate expires. At the same time, property taxable values are driven by the economy. If demand for property decreases, the value of the property also decreases, this reduces the revenue collected by the library.

$$\text{Property tax revenue} = \text{Taxable Value} \times \text{Millage Rate}$$

The taxable value of a property is based on the assessed value of each property. The assessed value should be roughly 50% of the fair market value of the property, or the amount the owner would expect to receive if the property was sold. However, this value is subject to review as every property owner has the right to challenge increases in this assessment. There are additional steps that are used to determine the final taxable value, however, they are beyond the scope of this manual.

All real and personal property of a business is subject to taxation. Property owned by public entities (federal, state and local units of government), religious, and not-for-profit organizations is exempt. In addition, mobile homes that reside in trailer parks are exempt since they constitute personal property (they pay a "trailer park fee" of three dollars per month in lieu of property taxes).

The millage rate is the amount of taxes to be paid per thousand dollars of taxable value, subject to several constitutional and statutory provisions.

Public Library Financial Management Guide

Chapter 5 - Revenues and Expenditures

SECTION 1 REVENUES (CONTINUED)

Taxes (Continued)

Local municipalities have maximum operating millage rates that can be levied without voter approval. The maximum rate is set by either the municipality charter or state law depending on the type of municipality. In addition to this operating millage, extra voted millage rates for library operations or debt may be approved through a ballot proposal process (i.e., voter approval). See MCL [397.201](#) or [397.210](#).

For district libraries, a district-wide operating tax may not exceed 4 mills. Any portion of the total district-wide tax that exceeds 2 mills cannot be authorized for a period exceeding 20 years. Additional restrictions apply. See MCL [397.183](#) Sec. 13. Fifty voters of a city may petition for a tax to be levied of up to 2 mills to establish a free public library in that city. A tax may not be levied without voter approval. See MCL [397.210a](#).

Intergovernmental revenue

Intergovernmental revenue can come from three sources: the federal government, the State of Michigan, and other local municipalities.

Federal government - This consists of grants subject to the Office of Management and Budget Circular A-133. These requirements are also referred to as a "Single Audit". As long as the library complies with the terms of the grant agreement, the revenue is "free" to the library and is not required to be paid back. However, if the library does not comply, the funds would have to be returned to the federal government.

State of Michigan - [Public Act 89 of 1977](#) provides 5 state aid grants for libraries. These grants are administered by the Library of Michigan. The Library of Michigan also sets the minimum standards and requirements to be met in order to earn a grant. While the Public Act sets the per capita amount that each library should receive, the Michigan legislature has yet to appropriate the full amount required to meet this requirements. As a result, in any given year, the per capita amount is prorated based on the revenue available for distribution.

- Public Library Cooperatives -
 - 50 cents per capita for their served population.
 - or -
 - \$10 per square mile if less than 75 people per square mile.
- Public Libraries
 - 50 cents per capita for their served population, *if* minimum standards are met.
- Public Libraries that are members of Cooperatives *and* minimum standards met
 - 50 cents per capita to pay for cooperative services.
- County Public Libraries with a population of 50,000 or less
 - \$4,800 annually to pay for director's salary (if certain educational requirements are met).

Additional information about the State Aid grant requirements can be found on the Library of Michigan's [website](#).

Public Library Financial Management Guide

Chapter 5 - Revenues and Expenditures

SECTION 1 REVENUES (CONTINUED)

Intergovernmental revenue (Continued)

Local municipalities -

Libraries also receive revenue from penal fines collected by county treasurers and distributed to local libraries by August 1 each year. Penal fines are governed by [Public Act 59 of 1964](#). A penal fine is assessed on certain civil infractions and local ordinance violations. For a list of [Frequently Asked Questions](#) about penal files please visit the State's website.

Local units can also provide grants to the library to help cover the costs of providing services to their constituents.

Charges for services

Charges for services consist of fees for the use of library services and materials. This includes copying fees, rental fees, used book sales, internet access fees, program fees, and non-resident fees. Not all libraries will charge for everything listed and some libraries may have more types of charges depending on the availability of certain resources.

Fines and forfeits

Typically, a library records late fees in this category. A library can also charge fines for lost library materials.

Interest and rents

Any interest income earned on bank accounts is recorded here. Some libraries may have public spaces that the general public can rent to use. This revenue would also be recorded here.

Other

Any miscellaneous revenue that does not fit one of the other descriptions is recorded here. This category should be used last and kept to a minimal amount.

Public Library Financial Management Guide

Chapter 5 - Revenues and Expenditures

SECTION 2 EXPENDITURES

At the fund level, expenditures are organized in the following functions:

Recreation and Cultural

The majority of expenditures for a library will be shown as recreation and cultural in the financial statements. Within this function the library will group expenditures by activity of department. The following are examples of accounts for expenditures:

- Personal Services - salaries and wages, per diem, fringe benefits, etc.
- Supplies - office supplies, operating supplies, maintenance supplies, repair supplies, etc.
- Other Services and Charges - professional and contractual services, communications, transportation, retirement benefits (to retirees), printing and publishing, etc.

Capital Outlay

Capital Outlay expenditures result in the acquisition of or addition to capital assets. The amounts in these accounts must agree with the **capitalization policy** of the local unit and will equal the additions to general capital assets records.

Debt Service

Debt service expenditures will be the library's principal and interest paid on any long-term debt.

Public Library Financial Management Guide

Chapter 6 - Budgeting

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with a basic understanding of the budgeting process. A brief outline of the chapter follows:

- Section 1 - Budget Concepts
- Section 2 - Level of Budgetary Control
- Section 3 - Budget Requirements
- Section 4 - Budget Calendar
- Section 5 - Budgetary Basis

LEARNING PRE-REQUISITES

In order to effectively use this chapter of the manual, the user should first read Chapter 1 - "Accounting for Libraries", with particular emphasis on Section 2 - "Basis of Accounting" and Section 4 - "Annual Financial Statements".

SECTION 1 BUDGET CONCEPTS

A) DEFINITION

A budget is an official statement from a government indicating how much it plans to spend during its fiscal year and how it will pay for such expenditures. In the State of Michigan, annual budgets are required by law for all general and special revenue funds.

B) PURPOSE

Under [Michigan Public Act 621 of 1978](#), a budget appropriation (resolution adopting a budget) must be in place before a governmental unit may expend money in their General Fund or Special Revenue Funds. In addition to meeting State requirements, a budget also ensures that libraries establish a plan on how to allocate resources to meet the goals and service expectations of the library. Even though budgets are not required for capital project and debt service funds, they can serve as useful planning tools for these funds as well. Adopting budgets for all the Library's funds is a recommended practice. No matter what fund the budget is for, it allows management to easily assess whether the library is meeting their yearly goals.

C) BUDGET PROCESS

Regardless of the type of library, the annual budgetary process involves three generic phases:

1. Preparation

The library director (or designee) initiates and completes this phase by analyzing past financial data for useful trends. This information is used to allocate the anticipated library resources (revenue) to the various services and activities for library patrons (expenditures).

Public Library Financial Management Guide

Chapter 6 - Budgeting

SECTION 1 BUDGET CONCEPTS (CONTINUED)

C) BUDGET PROCESS (CONTINUED)

2. Adoption

Once the budget has been prepared, it is presented to the library's legislative body. This presentation is open to the public as required by the [open meeting act](#). The legislative body considers the budget, requests possible modifications, and gives final approval. In some cases, the legislative body discusses the budget during a special budget meeting, before officially approving the budget in a regular meeting of the body.

3. Execution

Budgetary accounts are set up to record the estimated revenue and expenditures for the appropriate funds. At least monthly, management should compare actual revenue and expenditures to the budgeted amount to determine if any budget amendments are necessary. Budget amendments are passed in a manner very similar to the adoption of the original budget, usually a resolution of the governing body.

SECTION 2 LEVEL OF BUDGETARY CONTROL

The governing body appropriates funds at a level of budgetary control they define. The level of budgetary control is basically the point where expenditures are considered to be over the amount appropriated. Different funds can (often do) have different levels of budgetary control. Common levels of budgetary control are:

- 1) Line item - a line item budget controls a library's budget by each general ledger account (not a recommended practice).
- 2) Activity - an office or department to which specific expenditures are to be allocated (for example, finance department, circulation, etc.).
- 3) Fund - a total budget for an individual fund. This is most often used for special revenue, capital project, and debt service funds.

All three levels are acceptable methods of budgeting. Caution should be used when using the line item budget as it will likely require multiple budget amendments during the year to maintain compliance with the budget. All the methods provide management and the board with an effective tool to help operate and manage the library.

Public Library Financial Management Guide

Chapter 6 - Budgeting

SECTION 3 BUDGET REQUIREMENTS

In order to comply with the [Michigan Public Act 621 of 1978 \(the Budget Act\)](#), certain requirements must be met. “[The Uniform Budgeting Manual for Local Units of Government in Michigan](#)” and other additional information regarding the Budget Act may be obtained from the State of Michigan Treasury. The following are the specific requirements for all budgets. All items must occur in order to comply with the Budget Act.

Budget Requirements

- A budget is adopted for all General and Special Revenue Funds, at a minimum.
- A public hearing is held on the budget.
- All the following information is included in the budget document for the budgeted funds:
 - Actual prior year (both revenue and expenditures).
 - Estimate of current year (both revenue and expenditures).
 - Proposed budget (both revenue and expenditures).
 - Amounts for contingencies, if appropriate.
 - Amount of fund balance (deficit) accumulated from prior years and the estimated surplus or deficit expected in the current year.
- The budget is balanced (expenditures can exceed estimated revenues as long as the excess is not greater than existing fund balance).
- The budget has been amended to allow expenditures in excess of the original appropriation.
- The expenditures are equal to or less than amounts appropriated.
- All expenditures are authorized in the budget.

SECTION 4 BUDGET CALENDAR

The following is an example of a budget calendar for a library with a fiscal year of January 1 through December 31.

Timeline	Process
July	Library director (or designee) begins process - concludes on format, sets management team's workshop sessions and submits data request to management team
August	Data request forms collected and summarized in workshop sessions - initial budget is formed
September	Proposed budget submitted for board review
October	Board reviews and provides input on proposed budget
November	Public hearing and budget adoption

Public Library Financial Management Guide

Chapter 6 - Budgeting

SECTION 5 BUDGETARY BASIS

The term “basis of accounting” is used to describe the timing of recognition or when the effects of transactions or events should be recognized. The basis of accounting used for purposes of financial reporting must be in accordance with generally accepted accounting principles (GAAP). However, it is not necessary for the same basis used in preparing the financial statements be used in preparing the budget document. For example, governmental funds are required to use the modified accrual basis of accounting in GAAP financial statements, whereas the cash basis of accounting may be used in those same funds for budgetary purposes. If a different basis is used for budgeting, the government is required to explain the differences between the bases used.

For those libraries using a budgetary basis of accounting other than GAAP, some of the more common differences are as follows:

- The timing of revenue and expenditures may be different under the GAAP basis of accounting than under the budgetary basis of accounting. For example, in GAAP accounting revenues are recognized in governmental funds as soon as they are both “measurable” and “available” however under the budgetary basis of accounting may be deferred until amounts are actually received in cash.
- Budgetary revenues and expenditures may include items classified as “**other financing sources**” and “**other financing uses**” under the GAAP basis of accounting.
- The government’s budget document may have multiple funds budgeted separately that are grouped together as the general fund for the GAAP basis.

It is recommended that the budget document clearly define the basis of accounting used for budgetary purposes. If the budgetary basis of accounting and the GAAP basis of accounting are the same, this fact should be clearly stated. If the budgetary basis of accounting and the GAAP basis of accounting are different, major differences and similarities between the two bases of accounting should be noted.

A sample budget can be found at [Appendix 4](#)

Public Library Financial Management Guide

Chapter 7 - Financial Reporting

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide a general overview of financial reporting for internal and external purposes. A brief outline of the chapter follows:

Section 1 - Objectives of Financial Reporting

Section 2 - Internal Reporting

Section 3 - External Reporting

LEARNING PRE-REQUISITES

In order to effectively use this chapter of the manual, the user should first read Chapter 1 - "Accounting for Libraries", with particular emphasis on Section 2 - "Basis of Accounting", Section 3 - "Types of Funds", and Section 4 - "Annual Financial Statements".

SECTION 1 OBJECTIVES OF FINANCIAL REPORTING

Financial statements are the end product of the accounting function. The annual financial statements are often used to communicate the library's activities, operations, and programs to decision makers, lenders, government agencies, the general public, and others outside the library. Financial statement information needs to be well organized, timely, and relevant in order to provide value to the readers.

SECTION 2 INTERNAL REPORTING

All libraries, regardless of size, should periodically generate summarized financial information to provide management and the board the ability to make informed financial decisions. Libraries should have formal, well-documented internal reporting processes. Internal reporting best practices often include:

1. Comparative monthly and annual financial statements, including budget and actual amounts, prepared on a consistent basis.
2. Explanation of significant variances between budgeted and actual amounts.
3. Periodic meetings between management and the board to review financial reports.

See [Appendix 1](#) for sample internal reports.

SECTION 3 EXTERNAL REPORTING

Michigan Public Act 2 of 1968, as amended, requires that each governmental unit's chief administrative officer to create an annual financial report which shall be uniform for all local units of the same class. An electronic copy of the annual financial report is required to be filed with the state treasurer within 6 months after the end of the fiscal year. Refer to [MCL 141.425 Sec. 5](#).

Public Library Financial Management Guide

Chapter 7 - Financial Reporting

SECTION 3 EXTERNAL REPORTING (CONTINUED)

As part of the external reporting requirements the library will issue their **annual report** with the following sections:

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The purpose of the MD&A is to provide users of the basic financial statements with a narrative introduction, overview and analysis of the financial statements. It explains the basic financial statements and provides comparative data analysis. This section gives the library an opportunity to explain changes in revenue or expenditures in terms that a general user can understand. It also provides an opportunity to explain changes in economic factors, budget variances, and future plans/expectations. The MD&A is a required part of the supplementary information but is not audited. However, an auditor will review the MD&A for content, and to make sure the numbers agree with the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government wide financial statements are presented similar to that of a business or not-for-profit organization. Below is more detail on those statements.

Statement of Net Position

The Statement of Net position is maintained on a full accrual basis. Therefore, all assets and liabilities (and deferred outflow/inflows) are presented. Certain assets and liabilities are long term in nature such as capital assets and long-term debt. These long-term items are presented only on the statement of Net Position. The statement includes Governmental Activities (all governmental funds) and the Business-Type activities (proprietary funds, which are less likely for a library).

See **Appendix 2** for an example.

Statement of Activities

The statement of activities presents the direct functional expenses of the library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

See **Appendix 2** for an example.

FUND FINANCIAL STATEMENTS

The library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Public Library Financial Management Guide

Chapter 7 - Financial Reporting

SECTION 3 EXTERNAL REPORTING (CONTINUED)

FUND FINANCIAL STATEMENTS (CONTINUED)

The fund financial statements present the library's individual major funds and the nonmajor funds aggregated into one column. Major individual governmental funds are reported as separate columns in the fund financial statements.

Major funds represent the library's most important funds and are determined based on percentages of assets, liabilities, revenues and expenditures. The library can elect to show any given fund as major if there is a reason they would like it to be presented separately. Funds are required to be presented as major if they meet each of the following criteria:

- 1) Total assets, liabilities, revenues, or expenditures of the individual fund are at least 10% of the corresponding total for that element (assets, liabilities, etc.) for all funds of that category or type (governmental funds, **enterprise funds**, etc.).
- 2) Total assets, liabilities, revenues, or expenditures of the individual fund are at least 5% of the corresponding total for that element (assets, liabilities, etc.) of all governmental and enterprise funds combined. This second criteria would not apply if there are no enterprise funds.

The fund financial statements are kept on a modified accrual basis. Therefore, only current assets and liabilities are presented (no long term asset/liabilities) and the library will only recognize revenues that are collected within sixty (60) days of year end. The statements that are part of the fund financial statements are the Balance Sheet and **Statement of Revenues, Expenditures, and Changes in Fund Balances**.

See **Appendix 2** for examples.

The fund financial statements will also contain two reconciliations that give details of how the governmental funds convert to the government wide financial statements, which are presented on the full accrual basis of accounting. These are the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.

NOTES TO FINANCIAL STATEMENTS

Notes to financial statements are additional information that help explain specific items as well as provide a more comprehensive assessment of the library's financial condition. The notes to financial statements present both quantitative and narrative information that is essential to the financial statement user's understanding. There are two types of note disclosures:

- Those that describe the accounting methods, policies, and choices underlying the amounts in the financial statements.
- Those that provide additional detail about or explanations of the amounts in the financial statements.

Public Library Financial Management Guide

Chapter 7 - Financial Reporting

SECTION 3 EXTERNAL REPORTING (CONTINUED)

BUDGETARY COMPARISON SCHEDULE

In addition to MD&A, budgetary comparison schedules are also presented as Required Supplementary Information (RSI). Budgetary comparison schedules must be provided for the General Fund and each major Special Revenue Fund. The budgetary comparison schedules should present both the original and final appropriated budgets for the reporting period as well as actual revenues, expenditures and balances stated on the government's budgetary basis.

Governments have the option to present the budgetary comparisons as part of the basic financial statements and not as RSI. The main difference between the two options is the responsibility of your independent auditor with respect to budgetary comparison statements (i.e., not schedules) presented in this way, which may increase audit fees. If you have questions about this choice, please discuss it with your auditor.

See [Appendix 2](#) for an example.

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information (OSI) is other information presented with the basic financial statements. The main component of OSI are the combining statements. The combining statements contain the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for all non-major funds. The total of all of these funds is then carried to the fund financial statements. The State of Michigan requires all funds to be presented in the annual financial statements.

Public Library Financial Management Guide

Chapter 8 - Audit Process

OBJECTIVE/SUMMARY

Section 1 - Difference between Auditing and Accounting
Section 2 - Audit Requirement
Section 3 - Types of Audits/Audit Process
Section 4 - Types of Opinions
Section 5 - Selection of an Independent Auditor
Section 6 - Preparation for an Audit

LEARNING PRE-REQUISITES

In order to effectively use this chapter of the manual, the user should first read Chapter 1 - "Accounting for Libraries", with particular emphasis on Section 4 - "Annual Financial Statements".

SECTION 1 DIFFERENCE BETWEEN AUDITING AND ACCOUNTING

AUDITING

Auditing is a set of procedures performed to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position and related changes for the year in conformity with generally accepted accounting principles.

ACCOUNTING

Accounting is the process of identifying, recording, classifying, and reporting information on economic events in a logical manner for the purpose of providing financial information for decision making.

SECTION 2 AUDIT REQUIREMENT

REQUIREMENT

[Michigan Public Act 2 of 1968](#), as amended, requires that each governmental unit serving a population of 4,000 or more have an annual audit (those under 4,000 must have an audit at least every other year). Refer to [MCL 141.425](#). Non-governmental libraries are subject to audits as required by governing bylaws or other authoritative documents.

Audits are performed in accordance with [Generally Accepted Auditing Standards](#). Libraries that receive federal funding may also require an Office of Management and Budget Circular A-133 audit (Single Audit).

Benefits of an annual audit include credibility of the financial statements, professional guidance in preparing useful financial statements, advice on developing and maintaining [internal controls](#), and assistance with compliance requirements.

Public Library Financial Management Guide

Chapter 8 - Audit Process

SECTION 2 AUDIT REQUIREMENT (CONTINUED)

DISTRIBUTION

Audited financial statements for government libraries are considered public records to be distributed upon request. Typically they are distributed as follows:

- Library board and/or audit committee.
- State of Michigan Local Audit and Finance Division of the Department of Treasury.
- The Library of Michigan (when a Single Audit is required under Library Services Technology Act (LSTA) guidelines).
- Federal Audit Clearinghouse (if a Single Audit or program audit is required).
- Often posted on the Library's website.

SECTION 3 TYPES OF AUDITS/AUDIT PROCESS

FINANCIAL STATEMENT AUDIT

This type of audit provides reasonable assurance about whether financial statements present fairly the financial position and results of operations in conformity with generally accepted accounting principles.

Components of a financial statement audit include the following:

- Consideration of the library's internal controls.
- An examination of evidence supporting the amounts and disclosures in the financial statements.
- An opinion expressed regarding whether the financial statements are free of material misstatement.

OMB CIRCULAR A-133 AUDIT (SINGLE AUDIT)

Single Audits include the following:

- Perform an audit of the financial statements and **schedule of expenditures of federal awards** in accordance with Government Auditing Standards as prescribed in the "Yellow Book".
- Determine whether the schedule of expenditures of federal awards is presented fairly in relation to the financial statements as a whole.

Public Library Financial Management Guide

Chapter 8 - Audit Process

SECTION 3 TYPES OF AUDITS/AUDIT PROCESS (CONTINUED)

OMB CIRCULAR A-133 AUDIT (SINGLE AUDIT) (CONTINUED)

- For “major programs” (determined using a prescribed, risk-based approach), obtain an understanding of internal controls relating to the compliance requirements established or the program and perform test of controls.
- Determine whether the library has materially complied with provisions of laws, regulations, contracts and grants.
- Issue report letters regarding the library’s compliance with laws and regulations and internal controls related to the financial statements and major federal awards.

See [Appendix 6](#) for a chart for determining the applicability of a Single Audit.

SECTION 4 TYPES OF OPINIONS

Audit reports are frequently classified according to the type of opinion expressed by the auditor:

- Unmodified
- Qualified
- Adverse
- Disclaimer

Unmodified Opinion

An unmodified opinion says the financial statements present fairly, in all material respects, the financial position and the respective changes in financial position in accordance with Generally Accepted Accounting Principles (GAAP). This type of opinion is also known as the standard opinion and is the best opinion a library can receive.

Qualified Opinion

A qualified opinion says that, except for the effects of the matters to which the qualification relates, the financial statements present fairly in all material respects in accordance with GAAP. This type of opinion generally arises if the library fails to follow GAAP in some way when preparing the financial statements. All qualified reports include a separate explanatory paragraph before the opinion paragraph disclosing the reasons for the qualification.

Public Library Financial Management Guide

Chapter 8 - Audit Process

SECTION 4 TYPES OF OPINIONS (CONTINUED)

Adverse Opinion

An adverse opinion says the financial statements are not presented fairly in accordance with GAAP. This type of opinion includes a disclosure paragraph in the report stating the reasons for the adverse opinion and the primary effects on the financial statements.

Disclaimer Opinion

A disclaimer does not express an opinion on the financial statements to which it relates. In other words, the auditor does not have an adequate basis for an opinion and does not know whether the statements are fairly stated. This type of opinion generally arises when the auditor is not independent of the library or has been unable to obtain sufficient evidence on which to base an opinion.

SECTION 5 SELECTION OF AN INDEPENDENT AUDITOR

ESTABLISHING AN AUDIT POLICY

Library boards should develop a policy as to the type of professional relationship the library will have with its independent auditor. Some boards desire long-term relationships, while other boards believe it is appropriate to change independent audit firms every few years.

IDENTIFYING POTENTIAL AUDITORS

There are a number of methods for identifying potential audit firms. Referrals are often the best source. Ask for recommendations from board members, attorneys, bankers, or contacts from other library organizations.

METHODS FOR OBTAINING QUOTES FOR PROFESSIONAL SERVICES

Methods for obtaining quotes for professional services, including audits, vary among library organizations and depend on the procurement policies currently in place. Many government and not-for-profit organizations use a request for proposal (RFP) process to obtain quotes.

RFP documents state the audit requirements, period to be covered, library contact person and method for questions to be answered or information to be obtained.

RFP documents request information including qualifications of an audit firm, qualifications of staff to be assigned to the engagement, audit approach, references, and fees.

See [Appendix 5](#) for a sample audit RFP document.

Public Library Financial Management Guide

Chapter 8 - Audit Process

SECTION 5

SELECTION OF AN INDEPENDENT AUDITOR (CONTINUED)

CRITERIA FOR SELECTION

Selection of a Certified Public Accountant (CPA) should be based on reputation, expertise, and willingness to serve your organization. The decision-making body should develop preliminary criteria at the start of the selection process. Identification of the criteria most important to the library would also be appropriate. This information can be used to evaluate a single proposal or to evaluate and compare multiple proposals.

Criteria for selecting an auditor may include the following:

- Background of the staff to be assigned to the engagement
 - Staff experienced in accounting and auditing libraries.
 - Personal abilities of engagement staff (perceived ability to relate and work well with library staff).
- Ability of CPA firm to respond quickly, effectively, and competently to the library's needs
 - Ability of CPA firm to complete audit by library's deadline.
 - Willingness to provide recommendations for improving internal controls and financial management practices.
 - Ability of engagement staff to access other resources a library may need (specialists, consultants, reference materials, etc.).
 - Overall attitude with which CPA firm approaches client service.
- Reputation
 - How others inside and outside the library perceive the CPA firm.
 - Involvement of staff in library professional activities.
 - Commitment to serving libraries.
- Fee
 - Single year or multi-year contract (library should stipulate needs).
 - Should not be the deciding factor unless two or more firms are perceived equal in all other areas.
 - CPAs who propose fees that are significantly lower than others may not be realistic about the effort required to complete the audit or are "low-balling" to get the work. In these cases, question the CPA about the basis for the fee quoted and whether there will be additional billings for the audit.
- Continuity of staff assigned to the engagement
 - Some level of staff turnover is likely; excessive turnover is not desirable.
 - Some organizations believe planned rotation of staff is desirable as a means to bring new ideas to the audit process.

Public Library Financial Management Guide

Chapter 8 - Audit Process

SECTION 6 PREPARATION FOR AN AUDIT

HOW YOU CAN ASSIST

Following are considerations for preparing for an audit:

- Communicate throughout the year with the auditors regarding unusual or difficult accounting issues and library activities, in general.
- Implement and maintain sound internal control procedures (refer to Internal Controls chapter).
- Maintain appropriate accounting and financial documentation.
 - Current **trial balances**
 - Ongoing account analysis schedules
 - Interfund transactions balance
 - Balance sheet accounts agree to detail records
 - Bank reconciliations
 - Accounts receivable detail
 - Taxes receivable
 - Accounts payable detail
 - Filing of invoices and other accounting records
 - Maintain an **audit trail**
 - Maintain comprehensive “files” for key items
 - Property taxes
 - Budget adoption/amendments
 - Debt information
- Prepare **confirmation** reports.
 - Auditor must control the process including mailing the confirmations.
 - You can follow up with phone calls for nonresponses.
- Prepare schedules requested by auditor.
- Pull samples selected by the auditor.
- Prepare financial statements (unless you are contracting with the independent auditor to do this).

Public Library Financial Management Guide

Chapter 8 - Audit Process

SECTION 6 PREPARATION FOR AN AUDIT (CONTINUED)

TIMING OF AUDIT AND ASSISTANCE

Meet/discuss with audit partner or manager/in-charge before year-end regarding their audit approach.

- Will accounting system documentation be updated before year-end? Will the auditors do this or is this done by the Library?
- Will they test transactions before year-end?
- What confirmations can be prepared ahead of time?
- What accounts will they want to analyze?
- Communicate with auditors when books will be “closed” (transactions have been recorded, adjusting journal entries have been made and a preliminary trial balance is available).
- Identify a preliminary timetable for audit start and completion dates.
- Communicate rules regarding use of phones, photocopies, internet, and files.

Before the auditors arrive and before year-end:

- Provide work space. Consider access to phones, photocopier, internet, and files.
- Prepare confirmation requests.
 - Start on analysis of key accounts identified by auditor.
- After year-end:
 - Agree balance sheet supporting detail to general ledger balances.
 - Review general ledger for unusual account balances and investigate.
 - Make all minor adjustments before finalizing general ledger.
- When the Auditors arrive:
 - Assign an individual (focal person) (e.g. to pull samples, make photocopies, etc.).
 - Monitor the audit progress.
- After the audit is complete meet/discuss with auditors the results.
 - Problem areas.
 - Journal entries.
 - Identify strengths of the library.
 - Identify areas of improvement for the library.
 - Provide feedback to auditors regarding their performance.

Public Library Financial Management Guide

Chapter 9 - Internal Controls

OBJECTIVE/SUMMARY

This chapter discusses what an internal control structure is and identifies internal control objectives and components. This chapter also includes some specific control procedures for libraries. There is an internal control questionnaire at [Appendix 7](#) that can be used to determine what types of controls are already in place and what controls may be needed. ***It is important to note that, due to the limited number of staff at many libraries it may be difficult and not cost-beneficial to implement some control procedures.***

Section 1 - Definition of Internal Controls
Section 2 - Internal Control Objectives
Section 3 - Internal Control Components
Section 4 - Inherent Limitations of Controls
Section 5 - Common Indicators of Potential Fraud or Embezzlement

LEARNING PRE-REQUISITES

In order to effectively use this chapter of the manual, the user should first read Chapter 1 - “Accounting for Libraries”, with particular emphasis on Section 5 - “Types of Accounting Transactions”.

SECTION 1 DEFINITION OF INTERNAL CONTROLS

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

SECTION 2 INTERNAL CONTROL OBJECTIVES

COSO introduced the updated Internal Control - Integrated Framework (Framework) in May 2013. They believe the Framework will enable organizations to effectively and efficiently develop and maintain systems of internal control that can enhance the likelihood of achieving an entity’s objectives and adapt to changes in the business and operating environments. The COSO framework is intended to be a “principles-based” approach rather than a listing or discussion of required or recommended internal controls.

Based on COSO’s Framework, there are three categories of internal control objectives:

- Operations - Relates to the effectiveness and efficiency of the library’s operation, including operational and financial performance goals, and safeguarding assets against loss.
- Reporting - Pertains to internal and external financial and non-financial reporting. This incorporates reliability, timeliness, transparency, or other terms as set forth by regulators.
- Compliance - Standards to verify the library conducts their activities in accordance with relevant laws and regulations.

Public Library Financial Management Guide

Chapter 9 - Internal Controls

SECTION 3 INTERNAL CONTROL COMPONENTS

Based on COSO's Framework, there are five integrated components of internal control:

- Control Environment
- Risk Assessment
- Control Activities
- Information & Communication
- Monitoring Activities

Control Environment

The control environment is a set of standards, processes, and structures that provide the basis for carrying out internal control across the library. The tone is set at the top by management and the board of directors. This tone should include the importance of internal control and the standards that are expected to be followed by employees.

Risk Assessment

Every library faces a variety of risks from external and internal sources. Risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment allows the library to identify and assess risks related to the library's objectives. Risk assessment forms the basis for determining how risks will be managed.

Management should specify objectives within categories relating to operations, reporting, and compliance with adequate transparency to be able to identify and analyze risk to those objectives. Risk assessment also requires management to consider the impact of possible changes in the external environment as well as changes within the library's internal structure.

Control Activities

Control activities are those policies and procedures developed by management to help ensure that management's directives to mitigate risks to achieve their objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. The controls may be preventative or detective in nature and may include a range of manual or automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is usually included in the development of controls activities.

Information and Communication

Information is necessary for the library to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from senior management that control responsibilities must be taken seriously. External communication is twofold; it enables inbound communication of relevant external information, and it provides information to external parties in response to requirements and expectations.

Public Library Financial Management Guide

Chapter 9 - Internal Controls

SECTION 3 INTERNAL CONTROL COMPONENTS (CONTINUED)

Monitoring Activities

Ongoing monitoring is necessary to determine that each of the five components of internal control are present and functioning properly. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators or management and the board of directors, and deficiencies are communicated to management and the board of directors as appropriate.

The COSO Framework sets out seventeen principles representing the fundamental concepts associated with each component. The principles supporting the components of internal controls are:

Control Environment

1. The library demonstrates a commitment to integrity and ethical values.
2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
4. The library demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

6. The library specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
7. The library identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
8. The library considers the potential for fraud in assessing risks to the achievement of objectives.
9. The library identifies and assesses changes that could significantly impact the system of internal control.

Public Library Financial Management Guide

Chapter 9 - Internal Controls

SECTION 3 INTERNAL CONTROL COMPONENTS (CONTINUED)

Control Activities

10. The library selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
11. The library selects and develops general control activities over technology to support the achievement of objectives.
12. The library deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information and Communication

13. The library obtains or generates and uses relevant, quality information to support the functioning of internal control.
14. The library internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
15. The library communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities

16. The library selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
17. The library evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

SECTION 4 INHERENT LIMITATIONS OF CONTROLS

Inherent limitations on internal controls of a library are inevitable. Human error, deliberate circumvention, and cost/benefit considerations are factors that must be considered when implementing or analyzing a library's internal controls. The size and resources of a given library should also be taken into consideration. Larger libraries generally have greater resources which can be used to develop and implement more fool-proof controls. However, larger libraries generally have a need for more fool-proof controls due to the number of employees, transactions and resources they may be responsible for. Because of the inherent limitations of controls, it is important for libraries to have written documentation of their internal controls. The documentation can be in many forms, including written narratives, flowcharts and checklists. This documentation provides employees with clear precise procedures to follow when performing various functions and allows for easy follow up and investigation in situations that warrant it.

Public Library Financial Management Guide

Chapter 9 - Internal Controls

SECTION 5

COMMON INDICATORS OF POTENTIAL FRAUD OR EMBEZZLEMENT

Following are several common indicators of potential fraud or embezzlement at your library. To the extent these situations exist, further investigation is recommended.

- You notice lifestyle changes in an employee that opens the mail, accounts for cash or signs checks.
- An employee's life style appears inconsistent with their income level.
- An employee is overly nervous about audits.
- An employee will not share duties.
- An employee that handles cash or sign checks does not take allowed vacations.
- An employee works excessively on weekends or after business hours.
- A suspect employee is experiencing personal financial difficulties.
- None of the library's forms or documents are pre-numbered.
- Petty cash is missing.
- Sudden and unexplained overdrafts are occurring in the checking account.
- Duplicate or out-of-sequence check numbers are appearing on the bank statement.
- Cancelled checks returned from the bank have a different font or ink than normal.
- Non-payroll checks have been issued payable to employees.
- Payees on cancelled checks do not match entries in the general ledger.
- Invoices are being received for goods or services normally not purchased by the library.
- Invoices are being received that are not prepared/printed professionally or lack detailed information (e.g., phone or fax number, invoice number, description of goods, etc.).
- Payments are being made to unusual vendors or in unusual amounts.
- Payments to regular vendors are being made at unusual times.
- Duplicate or over-stated payments to vendors have been made.

Public Library Financial Management Guide

Appendix 1

Sample Library

BUDGET VS. ACTUAL

As of November 30, 20XX

	November 2013	Budget	\$ Over (Under) Budget	% of Budget
REVENUES				
Property Taxes	\$ 58,000	\$ 80,000	\$ (22,000)	73%
Penal Fines	15,000	40,000	(25,000)	38%
Grants	7,500	8,000	(500)	94%
Other	5,100	7,500	(2,400)	68%
TOTAL REVENUES	85,600	135,500	(49,900)	63%
EXPENDITURES				
Personal Services	39,000	80,000	(41,000)	49%
Building Operations	5,700	10,000	(4,300)	57%
Collection	1,000	3,000	(2,000)	33%
Capital Outlay	1,500	2,500	(1,000)	60%
Other Operating	2,900	5,000	(2,100)	58%
TOTAL EXPENDITURES	50,100	100,500	(50,400)	50%
Net Income	\$ 35,500	\$ 35,000	\$ 500	101%

Public Library Financial Management Guide

Appendix 1

Sample Library

BALANCE SHEET

As of November 30, 20XX

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 384,000
Investments	232,000
Accounts Receivable	30,000
Due from Other Governments	40,000
Prepays	<u>2,000</u>
TOTAL ASSETS	<u>\$ 688,000</u>
LIABILITIES & FUND BALANCE	
Liabilities	
Accounts Payable	\$ 210,000
Accrued Payroll	2,500
Due to Other Governments	<u>5,000</u>
Total Liabilities	217,500
Fund Balance	
Restricted for capital improvement	25,000
Unassigned	<u>228,000</u>
Total Fund Balance	<u>470,500</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 688,000</u>

Public Library Financial Management Guide

Appendix 1

Sample Library

PROFIT AND LOSS

July 20XX through November 20XX

	<u>YTD</u>
REVENUES	
Property Taxes	\$ 58,000
Penal Fines	15,000
Grants	7,500
Other	<u>5,100</u>
 TOTAL REVENUES	 85,600
EXPENDITURES	
Personal Services	39,000
Building Operations	5,700
Collection	1,000
Capital Outlay	1,500
Other Operating	<u>2,900</u>
 TOTAL EXPENDITURES	 <u>50,100</u>
 Net Income	 <u><u>\$ 35,500</u></u>

Public Library Financial Management Guide

Appendix 2

Sample Library

STATEMENT OF NET POSITION

June 30, 20XX

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 809,522
Investments	969,486
Prepaid expenses	7,154
Assets held by foundation	84,268
Accounts receivable	863
Due from other governmental units	<u>92,153</u>
Total current assets	1,963,446
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>2,176,341</u>
TOTAL ASSETS	4,139,787
LIABILITIES	
Current liabilities	
Accounts payable	62,676
Accrued liabilities	9,527
Accrued interest payable	4,593
Compensated absences	10,383
Current portion of long-term debt	<u>125,000</u>
Total current liabilities	212,179
Noncurrent liabilities	
Noncurrent portion of long-term debt	<u>555,000</u>
TOTAL LIABILITIES	767,179
NET POSITION	
Net investment in capital assets	1,496,341
Restricted	344,775
Unrestricted	<u>1,531,492</u>
TOTAL NET POSITION	<u><u>\$ 3,372,608</u></u>

See accompanying notes to financial statements.



Public Library Financial Management Guide

Appendix 2

Sample Library

STATEMENT OF ACTIVITIES

Year Ended June 30, 20XX

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Recreation and cultural	\$ 725,306	\$ 22,486	\$ 48,210	\$ (654,610)
Interest on long-term debt	31,204	-	-	(31,204)
	\$ 756,510	\$ 22,486	\$ 48,210	(685,814)
General revenues				
Property taxes				721,981
State aid				8,346
Penal fines				92,153
Investment earnings				13,987
Miscellaneous				2,398
				838,865
TOTAL GENERAL REVENUES				838,865
				153,051
CHANGE IN NET POSITION				153,051
Net position, beginning of year				3,219,557
Net position, end of year				\$ 3,372,608

See accompanying notes to financial statements.

Public Library Financial Management Guide

Appendix 2

Sample Library

Governmental Funds

BALANCE SHEET

June 30, 20XX

	General	Debt Service	Nonmajor Governmental Funds	Total
ASSETS				
Cash	\$ 809,522	\$ -	\$ -	\$ 809,522
Investments	704,386	184,256	80,844	969,486
Prepays	7,154	-	-	7,154
Assets held by foundation	-	-	84,268	84,268
Accounts receivable	863	-	-	863
Due from other governmental units	92,153	-	-	92,153
	TOTAL ASSETS	\$ 184,256	\$ 165,112	\$ 1,963,446
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 62,676	\$ -	\$ -	\$ 62,676
Accrued liabilities	9,527	-	-	9,527
	TOTAL LIABILITIES	-0-	-0-	72,203
FUND BALANCES				
Nonspendable	7,154	-	54,579	61,733
Restricted	-	184,256	110,533	294,789
Committed	251,043	-	-	251,043
Assigned	150,000	-	-	150,000
Unassigned	1,133,678	-	-	1,283,678
	TOTAL FUND BALANCES	184,256	165,112	1,891,243
	TOTAL LIABILITIES AND FUND BALANCES	\$ 184,256	\$ 165,112	\$ 1,963,446

See accompanying notes to financial statements.

Public Library Financial Management Guide

Appendix 2

Sample Library

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 20XX

	General	Debt Service	Nonmajor Governmental Funds	Total
REVENUES				
Property taxes	\$ 565,048	\$ 156,933	\$ -	\$ 721,981
Intergovernmental	105,336	-	-	105,336
Fines and forfeits	22,434	-	-	22,434
Interest	3,661	972	154	4,787
Net increase in fair value of investments	-	-	9,200	9,200
Charges for services	52	-	-	52
Other				
Miscellaneous	2,398	-	-	2,398
Contributions	42,073	-	1,300	43,373
TOTAL REVENUES	741,002	157,905	10,654	909,561
EXPENDITURES				
Current				
Recreation and cultural	665,494	-	800	666,294
Debt service	-	156,933	-	156,933
TOTAL EXPENDITURES	665,494	156,933	800	823,227
NET CHANGE IN FUND BALANCES	75,508	972	9,854	86,334
Fund balances, beginning of year	1,466,367	183,284	155,258	1,804,909
Fund balances, end of year	<u>\$ 1,541,875</u>	<u>\$ 184,256</u>	<u>\$ 165,112</u>	<u>\$ 1,891,243</u>

See accompanying notes to financial statements.

Public Library Financial Management Guide

Appendix 2

Sample Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 20XX

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 585,279	\$ 585,279	\$ 565,048	\$ (20,231)
Intergovernmental	80,000	80,000	105,336	25,336
Fines and forfeits	20,000	20,000	22,434	2,434
Interest	3,500	3,500	3,661	161
Charges for services	100	100	52	(48)
Other				
Miscellaneous	-	2,398	2,398	-0-
Contributions	13,950	13,950	42,073	28,123
TOTAL REVENUES	702,829	705,227	741,002	35,775
EXPENDITURES				
Current				
Recreation and cultural				
Personnel	359,200	306,799	295,017	11,782
Supplies	22,500	22,500	16,729	5,771
Building operations	117,400	179,400	166,165	13,235
Services	34,900	53,450	48,272	5,178
Cooperative services	29,000	29,000	20,484	8,516
Programming	8,500	8,500	7,984	516
Materials	80,000	81,918	80,932	986
Technology	13,800	13,800	12,955	845
Other	12,800	22,800	16,956	5,844
TOTAL EXPENDITURES	678,100	718,167	665,494	52,673
NET CHANGE IN FUND BALANCE	24,729	(12,940)	75,508	88,448
Fund balance, beginning of year	1,466,367	1,466,367	1,466,367	-0-
Fund balance, end of year	<u>\$ 1,491,096</u>	<u>\$ 1,453,427</u>	<u>\$ 1,541,875</u>	<u>\$ 88,448</u>

Sample Investment Policy

Purpose--An investment policy should state the reason it is established.

It is the policy of _____ to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the _____ and comply with all state statutes governing the investment of public funds.

Scope--An investment policy should state the funds to which the policy applies.

This investment policy applies to all financial assets of the _____. These assets are accounted for in the various funds of the _____ and include the general fund, special revenue funds, debt service funds, capital project funds, enterprise funds, internal service funds, trust and agency funds and any new fund established by the _____.

Objectives--safety, diversification, liquidity, and return on investment

The primary objectives, in priority order, of the _____'s investment activities shall be:

Safety--Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.

Diversification--The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity--The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Return on Investment--The investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority to Make Investments

*Authority to manage the investment program is derived from the following: (Insert the board resolutions designating depositories, appropriate state statutes. Management responsibility for the investment program is hereby delegated to the _____, who shall establish written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs payment, investment accounting, **repurchase agreements**, wire transfer agreements, collateral/depository agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the (title of the designated official) _____. The (title of the designated official) _____ shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities or subordinate officials.*

List of authorized investments--if mutual funds are authorized, a statement indicating whether the authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share or also include securities whose net asset value per share may fluctuate on a periodic basis.

Public Library Financial Management Guide

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The _____ is limited to investments authorized by Public Act 20 of 1943, as amended, and may invest in the following: (List the investments authorized by Act 20 which the governing body wants to allow the local unit's funds to be invested in)

Safekeeping and Custody--This provision will provide comfort that the securities are physically safe.

All security transactions, including collateral for repurchase agreements and financial institution deposits, entered into by the _____ shall be on a cash (or delivery vs payment) basis. Securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts as determined by the treasurer.

Prudence

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Sample Capital Asset Policy

Purpose: This policy is being established to establish criteria for the capitalization of various types of fixed or tangible assets to meet the provisions of Governmental Accounting Standards Board No. 34 (GASB 34).

Definitions: *Capitalized* items are defined as any equipment, or assets, which when purchased had a value, or price, in excess of _____ dollars (\$_____), and if said assets have a life expectancy of _____ year(s) or more. Capitalized items will also include any improvements, property betterments and additions in excess of \$_____.

Non-capitalized equipment is defined as equipment or assets, purchased or acquired, with a value of less than _____ dollars (\$_____). Non-capital items are expensed such as office supplies, such as folders, envelopes, stamps, paper, pencils tape, staplers and similar items.

Assets are defined as any items of value acquired by the Library. This could include land, buildings, art works, historical materials, or anything else of significant monetary value. It could include the value of the collection, an aggregate listing of the computers, an aggregate of similar chairs, furniture in a given room, etc.

Tangible assets are defined as anything which can be perceived by one or more of the senses.

Policies: The library will establish an accounting or record-keeping system that identifies all assets subject to GASB 34. The records will be updated annually and made available to the auditors.

Depreciation will be calculated based on the useful life of the capitalized item. All capitalized assets will be listed with their description, date of acquisition, acquisition cost, useful life, residual, or salvage value.

In cases where no purchase price can be obtained (historical treasures, works of art, and other similar valuables), a value and useful life will be assigned by _____ or his/her designee. This value shall be the estimated fair market value. Every attempt, within reason, will be made to determine the actual value of the item in question, before the value is recorded.

Sample Fraud Risk Management Policy

1. Organizational Code of Conduct

The library, its employees, Board of Trustees and volunteers must, at all times, comply with all applicable laws and regulations. The Library will not condone activities which achieve results based on unethical business practices, or through violation of the law. The library does not permit any activity that fails to stand the closest possible public scrutiny. Accordingly, employees, trustees and volunteers must ensure that their actions cannot be interpreted as being in any way, in breach of the laws and regulations governing the Library's operation.

Employees and volunteers uncertain about the application or interpretation of any legal requirements should refer the matter to the Library Director, who, if necessary, should seek the advice of the Board of Trustees or the library's attorney.

2. General Conduct

The library expects its employees, trustees and volunteers to conduct themselves in a professional and businesslike manner.

3. Conflicts of Interest

Employees and trustees will perform their duties conscientiously, honestly, and in accordance with the best interests of the Library. Neither employees nor trustees may use their position or the knowledge gained as a result of their position for private or personal advantage or to obtain financial gain.

Specifically, in the event that a trustee recognizes an actual or potential conflict of interest, the trustee is expected to disclose to the board any financial or personal beneficial interest, direct or indirect, and abstain voluntarily from discussion or voting on any issue that raises such conflict of interest. If any member of the board perceives a possible conflict of interest position for any other trustee, the possible conflict should be brought to the attention of the board and the board as a whole should determine whether the issue represents a conflict of interest.

4. Outside Activities, Employment, and Directorships

All employees and trustees share a serious responsibility for the Library's good public relations, especially at the community level. Their readiness to help with religious, charitable, educational, and civic activities brings credit to the Library and is encouraged. However, employees and trustees must avoid acquiring any business interest or participating in any activity outside the library that would, or would appear to:

- Create an excessive demand upon their time and attention, thus depriving the Library of their best efforts on the job.
- Create a conflict of interest - an obligation, interest, or distraction - that may interfere with the independent exercise of judgment in the Library's best interest.

5. Relationships with Clients and Suppliers

Employees and trustees should avoid investing in or acquiring a financial interest for their private accounts in any business organization that has a contractual relationship with the Library or that provides goods, services, or both to the Library, if such investments or interest could influence or create the impression of influencing their decisions in the performance of their duties on behalf of the Library.

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6. Gifts, Entertainment, and Favors

Employees and trustees must not accept entertainment, gifts or personal favors that could, in any way, influence, or appear to influence, business decisions in favor of any person, business, or organization with whom or with which the Library has, or is likely to have, business dealings.

7. Kickbacks and Secret Commissions

With regard to the Library's business activities, employees and trustees may not receive payment or compensation of any kind. In particular, the Library strictly prohibits the acceptance of kickbacks and secret commissions from suppliers or others. Any breach of this rule will result in immediate termination and prosecution to the fullest extent of the law.

8. The Library Funds and Assets

Employees and trustees who have access to the Library funds in any form or amount must follow the prescribed procedures for recording, handling, and protecting the money. The Library imposes strict standards to prevent fraud, theft, or dishonesty. If an individual becomes aware of any evidence of fraud or theft, a Fraud, Theft and Corruption Disclosure Form should be filed so that the Library can promptly investigate the matter.

When an employee or trustee position requires expending library funds or incurring reimbursable personal expenses, that individual must use good judgment on the Library's behalf to ensure that good value is received for the expenditure.

The Library funds and assets are for Library purposes only.

9. Records and Communications

Accurate and reliable records of many kinds are necessary to meet the Library's legal and financial obligations and to manage the affairs of the Library. The Library's books and records must reflect all business transactions in an accurate and timely manner. Employees and trustees responsible for accounting and recordkeeping must fully disclose and record all assets and liabilities, and must exercise diligence in enforcing these requirements.

Employees and trustees must not make or engage in any false record or communication of any kind, whether internal or external, including but not limited to:

- False expense, attendance, production, financial, or similar reports and statements.
- False advertising, deceptive marketing practices, or other misleading representations.

10. Dealing with Outside People and Organizations

Employees and trustees must take care to separate their personal roles from their library positions when communicating on matters not involving library business. Employees and trustees must not use Library identification, stationery, supplies, and equipment for personal or political matters.

The Library Director handles all public comments and communications. Trustees or other employees must not presume to speak for the Library, unless specifically authorized to do so, and should refer all communication matters to the Director.

When dealing with anyone outside the library, including public officials, employees and trustees must take care not to compromise the integrity or damage the reputation of the Library, or any outside individual, business, or governmental body.

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Trustees must remember that all authority is vested in the full board and not with individual board members. All board members are expected to support the majority decision of the board, regardless of how they personally voted on the matter.

11. Prompt Communications

In all matters relevant to patrons, suppliers, government officials, the public and others within the library, employees and trustees must make every effort to achieve complete, accurate and timely communications - responding promptly and courteously to all proper requests for information and to all complaints.

12. Privacy and Confidentiality

When handling financial and personal information about patrons or others with whom the Library has dealings, employees and trustees should observe the following principles:

- Collect, use, and retain only the personal information necessary for library business.
- Protect the physical security of this information at all times, and retain information only for as long as necessary or as required by law.

Limit internal access to personal information to those with a legitimate business or legal reason for seeking that information, and only use personal information for the purposes for which it was originally intended.

Sample Whistleblower Policy

The Library is committed to the highest standards of openness, honesty, and accountability. In consideration of that commitment, the library expects employees and others with serious concerns about any aspect of the library's ongoing operations to come forward and voice those concerns. This Whistle-Blowing Policy is intended to encourage and enable employees to raise serious concerns within the library, without fear of retaliation.

Employees are often the first to realize that there may be something seriously wrong within the Library. However, they may refrain from expressing their concerns because they feel speaking up would be disloyal to their colleagues. They may also fear harassment or victimization.

1. Scope

This policy aims to:

- Provide avenues for employees to raise concerns and receive feedback on any action taken.
- Reassure employees that they will be protected from retaliation or victimization for providing information in good faith.
- Inform employees how to take the matter further, if they are dissatisfied with the response.

This Whistle-Blowing Policy is intended to cover concerns of any employee or of any individual closely involved in the operations of the Library. These concerns may be about something that:

- Is unlawful.
- Violates the library's stated policies.
- Falls below established standards of practice.
- Represents improper conduct.

2. Safeguards

The library recognizes that the decision to report a concern can be a difficult one to make, possibly because of the fear of retaliation from those responsible for the misconduct.

The library will not tolerate harassment or victimization and will take action to protect those who raise a concern in good faith.

Every effort will be made to protect an individual's identity if they report a concern and do not want their name disclosed. The investigation process, however, may reveal the source of the information, and/or a statement by the individual may be required as part of the evidence.

Individuals are encouraged to put their names to allegations. Concerns expressed anonymously are much less powerful, but they may be considered at the discretion of the library. In exercising this discretion, the factors to be considered include:

- The seriousness of the issues raised.
- The credibility of the concern.
- The likelihood of confirming the allegations from attributable sources.

If an allegation is made in good faith, but is not corroborated by the investigation, no action will be taken against the originator of the allegation. If individuals make malicious allegations, disciplinary action may be considered against that individual.

3. Raising a Concern

For less serious issues, employees should normally raise concerns with the Library Director. In general, however, the Whistle-Blowing Policy should be applied for potentially more serious

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and sensitive issues. The first step is to approach the Library Director. If the subject of the allegation happens to be the Library Director, then the Executive Committee of the Board of Trustees should be contacted. In all cases, an initial investigation will determine whether or not a full investigation is required.

Concerns should be reported in writing using the -Fraud, Theft and Corruption Disclosure Form (attached). These forms can be obtained, confidentially, from the Library Director or any member of the Board of Trustees. The background and history of the issue, together with pertinent dates, should be included on the form. Include as much detail as possible, including the reason why the individual suspects fraud, theft, or corruption. The earlier the concern is reported, the easier it is to investigate and take action. Although employees are not expected to prove the truth of an allegation, they will need to demonstrate that there are sufficient grounds for concern.

4. How the Complaint Will Be Handled

The action taken by the library will depend on the nature of the concern. The matters raised may be investigated internally and/or reported to the police.

The amount of contact between the investigator and the originator of the complaint will depend on the nature of the issues raised, the potential difficulties involved, and the clarity of the information provided. The library will take steps to minimize any difficulties that the originator of the complaint may experience as a result of their concern.

Allegations will be addressed as follows depending on the nature of the allegation:

- An internal investigation by the Library Director, the Executive Committee of the Board of Trustees, or an external auditor.
- Referral of criminal matters to the police.

The complainant will receive, within ten (10) working days of a concern being received, written communication:

- Acknowledging that the concern has been received.
- Indicating how the matter will be handled.
- Giving an estimate of how long it will take to provide a final response.
- Telling them the status of the initial investigation.
- Telling them if any further investigation will take place, and if not, why.

The investigation will be planned with consideration to the following:

- Resources required to investigate the allegation.
- Legal status of the allegation (e.g., theft or breach of procedure).
- Internal disciplinary procedures.
- Level of evidence required.
- Protection of data and documents required.
- Minimization of the effect on employees and others.
- Recovery of lost funds and minimizing the potential for further loss.
- Review of any improvements required to prevent re-occurrence.

The Library appreciates that individuals who report the alleged fraud, theft, or corruption need to be assured that the matter has been properly addressed. Thus, where appropriate, and subject to legal constraints, they will receive information about the outcome of any investigation.

If the allegation of fraud, theft, or corruption directly impacts another organization, the highest ranking officer at that organization will be informed.

Sample Fund Balance Policy

Purpose. The following policy has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board (“GASB”) Statement No. 54, Fund Balance Reporting and Governmental Fund Definitions. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenue shortfalls, and
- d. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the District’s fund balance and reserve policies.

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The general fund is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District’s purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories using the definitions provided by GASB Statement No. 54:

Nonspendable fund balance

Definition - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact.

Classification - Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the District).

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- The District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).
- The District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact.
- The District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

Restricted fund balance

Definition - includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

Committed fund balance

Definition - includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit - Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Assigned fund balance

Definition - includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign - The Board of Education delegates to the [Committee or Administrator] or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition - includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Operational guidelines. The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts - Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

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Encumbrance reporting - Encumbering amounts for specific purposes for which resources have already been restricted, committed, or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.

Prioritization of fund balance use - When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance - The District will maintain a minimum unassigned fund balance in its General Fund ranging from [15] percent to [20] percent of [the subsequent year's budgeted expenditures and outgoing transfers]. This minimum fund balance is to protect against cash flow shortfalls related to timing of projected revenue receipts and to maintain a budget stabilization commitment.

Replenishing deficiencies - when fund balance falls below the minimum [15] percent range, the District will replenish shortages/deficiencies using the budget strategies and timeframes described below.

The following budgetary strategies shall be utilized by the District to replenish funding deficiencies:

- The District will reduce recurring expenditures to eliminate any structural deficit or,
- The District will increase revenues or pursue other funding sources, or,
- Some combination of the two options above.

Minimum fund balance deficiencies shall be replenished within the following time periods:

- Deficiency resulting in a minimum fund balance between [12.5] percent and [15] percent shall be replenished over a period not to exceed one year.
- Deficiency resulting in a minimum fund balance between [10] percent and [12.5] percent shall be replenished over a period not to exceed three years.
- Deficiency resulting in a minimum fund balance of less than [10] percent shall be replenished over a period not to exceed five years.

Surplus fund balance - Should unassigned fund balance of the General Fund ever exceed the maximum [20] percent range, the District will consider such fund balance surpluses for one-time expenditures that are nonrecurring in nature and which will not require additional future expense outlays for maintenance, additional staffing, or other recurring expenditures.

Implementation and review. Upon adoption of this policy the Board of Education authorizes the [Administrator/Department] to establish any standards and procedures which may be necessary for its implementation. The [Administrator/Department] shall review this policy at least annually and make any recommendations for changes to the Board of Education.

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Appendix 4

Sample Library General Fund - Budget Year Ended December 31, 2013

Account Number	Account Description	Prior Year Actual	Estimate of Current Year	Proposed Budget
Revenue				
271-738-403	Property taxes	\$ 200,000	\$ 210,000	\$ 228,000
271-738-566	State aid	12,000	12,000	13,000
271-738-606	Contractual Fees	6,000	6,000	6,000
271-738-607	Other fees	3,000	3,000	3,000
271-738-609	Book rental fees	1,000	1,000	1,000
271-738-613	Photocopy fees	2,000	2,000	2,000

Include remaining revenue line item descriptions and figures in a similar manner.

	Total Revenue	\$ 273,000	\$ 296,000	\$ 325,000
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Expenditures

271-738-702	Salaries & wages	\$ 150,000	\$ 156,000	\$ 161,000
271-738-715	Fringe benefits	28,000	32,000	34,000
271-738-716	Medical/dental	6,000	7,000	8,000
271-738-717	Life insurance/disability	3,000	4,000	4,000
271-738-718	Retirement	8,000	9,000	10,000
271-738-720	FICA & Medicare	11,000	12,000	12,000
271-738-725	Supplies	8,000	11,000	10,000
271-738-727	Office supplies	1,000	1,000	2,000
271-738-728	Library Supplies	3,000	6,000	5,000
271-738-729	Building Supplies	1,000	1,000	1,000

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Sample Library General Fund - Budget (Continued) Year Ended December 31, 2013

Account Number	Account Description	Prior Year Actual	Estimate of Current Year	Proposed Budget
Expenditures, continued				
271-738-730	Postage	1,000	2,000	1,000
271-738-732	Janitorial Supplies	2,000	1,000	1,000
271-738-740	Library Materials	35,000	42,000	39,000
271-738-741	Adult Books	\$ 11,000	\$ 13,000	\$ 13,000
271-738-742	Juvenile Books	3,000	5,000	4,000
271-738-744	Adult A-V	4,000	5,000	6,000
271-738-745	Juv A-V	4,000	4,000	3,000
271-738-747	Subscriptions	12,000	15,000	13,000
271-738-748	Book rental	1,000	-	-
271-738-801	Prof & cont	13,000	12,000	14,000
271-738-808	Online info	12,000	10,000	11,000
271-738-809	Programming	-	1,000	1,000
271-738-810	Other professional	-	-	500
271-738-812	Legal	-	-	500
271-738-814	Membership/dues	500	500	500
271-738-815	Staff inservice	500	500	500
Total Expenditures		<u>\$ 272,000</u>	<u>\$ 296,000</u>	<u>\$ 325,000</u>

Include remaining expenditure line item descriptions and figures in a similar manner.

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Appendix 5

SAMPLE REQUEST FOR PROPOSAL AUDIT SERVICES

NOTICE OF PROPOSAL

The _____ is issuing this request for proposal (RFP) for the financial audit of the Library's financial statements (if necessary, and a **compliance audit** of the federal programs in accordance with the Single Audit Act. The contact person regarding this RFP is _____ and can be reached at _____. The response due date for this RFP is _____ PM, _____. Any proposals received after this date will not be considered. We are requesting only _____ copies of your proposal in a sealed envelope. The envelope should clearly indicate it is a proposal for audit services. The audit period under contract is for the year(s) ended _____, _____ and may be extended at the discretion of Library.

AUDITING STANDARDS

Your examination will be conducted in accordance with the standards for financial audits contained in Audits of State and Local Governments, and if necessary compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. General Accounting Office, the Single Audit Act and, accordingly, will include any other tests of the accounting records and such other auditing procedures you consider necessary in the circumstances, including the requirements of Public Act 2 of 1968 as amended.

MANDATORY QUALIFICATIONS OF THE AUDITOR

The following information must be affirmed in the proposal response:

1. The proposer is properly licensed for public practice as a Certified Public Accountant.
2. The proposer meets the independence requirements of the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions published by the U.S. General Accounting Office.
3. The proposer does not have a record of substandard audit work. Please disclose the controls your firm has in place to ensure quality standards have been met. Also, disclose whether your firm is subject to an external quality control review process.

MONITORING

To ensure the quality of the audit, the Library may request, from time to time, a report on the progress of the audit. In addition, prior to completion of the fieldwork, an audit exit conference will be held to discuss the results of the audit.

TIME REQUIREMENTS

The Library shall receive all proposal responses by _____ PM _____. We anticipate the successful bidder will be notified by _____.



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WORKING PAPERS

The working papers shall be retained for at least three years. The working papers will be available for examination by authorized representatives of the State of Michigan, and, if required the cognizant federal audit agency and the General Accounting Office.

RIGHT TO REJECT

The Library reserves the right to reject any and all proposals submitted and to request additional information from all proposers. Any contract awarded will be made to the independent auditor who, based on evaluation of all responses, applying all criteria and oral interviews if necessary, is determined to be the best qualified to do the audit.

NUMBER OF COPIES OF AUDITOR'S REPORTS

The auditor shall furnish the Library ____ copies of all required reports. In addition, the auditor shall furnish the requested number of copies to each federal and state agency, as applicable.

CONTRACTUAL ARRANGEMENTS

Invoices for service will be paid when received. The total amount to be invoiced shall not exceed the amount of the bid unless other arrangements have been negotiated with the Library first. The cost of audits for subsequent years will be negotiated each year. The Library reserves the right to terminate the contract for audit at any time.

METHOD OF EVALUATING PROPOSALS

Proposals will be evaluated with a strict emphasis on quality. Attributes, which will be analyzed, include:

Evaluation Worksheet

1. Number of governmental entities audited by office of CPA firm proposing.
2. Firm governmental resources available.
3. Involvement in governmental activity and organizations.
4. Training of personnel in governmental (and federal grant) auditing.
5. Quality of staff included in assignment.
6. Reference responses.
7. Internal quality control procedures and external quality control review.

After technical qualities have been evaluated, cost and other considerations will be evaluated. The proposing audit firm should indicate the cost of the audit for the first year and the range or average cost per hour for audit services. Once all factors have been evaluated, the audit firm who is most qualified and reasonable in cost will be selected.

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FORMAT OF THE RFP RESPONSE

It is suggested the RFP response be formatted as follows:

Title Page

The response should identify the RFP subject and the name of the independent auditor, local address, telephone number, name, and title of contact person and date of submission. The period which the proposal is effective should also be disclosed.

Table of Contents

The table of contents of the proposal should include a clear and completed identification of the materials submitted by section and page number.

Letter of Transmittal

The letter of transmittal should contain the following information:

- A brief understanding of the audit service to be performed.
- A positive commitment to perform the service timely.
- The names of persons authorized to represent the proposer, their title, address and telephone number. This may be important if different from the individual who signs the transmittal letter.

PROFILE OF THE INDEPENDENT AUDITOR

The proposers are requested to provide a profile of general background information. This should include:

1. The organization and size of the proposer, whether it is local, regional, national, or international in operations.
2. The location of the office from which the work is to be done and the number of professional staff by staff level employed at that office.
3. A description of the range of activities performed by the local office such as auditing, accounting, tax service, or management services.
4. A statement on the proposer's staff capability to audit federal programs, including the number and classifications of personnel skilled in federal program auditing who will work in the audit, if required to.
5. A positive statement that the following mandatory criteria are satisfied:
 - A. An affirmation that the proposer is properly licensed for practice as a certified public accountant.
 - B. An affirmation that the proposer meets the independence requirements of the Standards for Audit of Governmental Organizations, Programs, Activities, and Function, published by the U.S. General Accounting Office.

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- C. An affirmation that the proposer does not have a record of substandard work.
- D. An affirmation from the proposers that they will follow the **American Institute of Certified Public Accountants'** (AICPA) "Interpretation 501-3, Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits". Basically, if a member of the AICPA accepts such an engagement and undertakes an obligation to follow specified the government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, the auditor is obligated to follow such requirements. Otherwise, the auditor must disclose in the audit report the fact that such requirements were not followed and the reasons therefore.

SUMMARY OF THE PROPOSER'S QUALIFICATIONS

1. Identify the audit managers, field supervisors, and other staff who will work on the audit, including staff from other than the local office. Resumes including relevant experience and continuing education for auditor in-charge up to the individual with final responsibility for the engagement should be included. (The resumes may be included as an appendix.)
2. Describe the recent local and regional office auditing experience similar to the type of audit requested and give the names and telephone numbers of client officials responsible for three of the audits listed.
3. Other auditors who are participating in the audit are also required to provide similar information.

PROPOSER'S APPROACH TO THE EXAMINATION

Submit a work plan to accomplish the scope of the audit. The work plan should include time estimates for each significant segment of the work and the staff level to be assigned. Where possible, individual staff members should be named and their titles provided. The planned use of specialists should be specified.

The audit work plan should completely cover what audit work will be accomplished to allow the auditor to render:

1. A report on the study and evaluation and report on internal control systems.
2. Reporting on the organization's control system to assure compliance and whether the organization has complied with laws and regulations that may have an effect on each major federal assistance program.

The audit work plan should demonstrate the auditor's understanding of the audit requirements of a single audit as specified in OMB Circular A-133 and the audit tests and procedures to be applied in completing the audit plan.

TIME REQUIREMENTS

If not already adequately covered in the letter of transmittal, the response should detail information on when the audit firm plans to deliver the final reports.

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COMPENSATION

Provide a not-to-exceed cost of services being offered for the first year of the engagement and the range or average cost per hour of audit services.

ADDITIONAL DATA

Provide any additional data the proposer feels may be helpful in the selection process.

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AUDIT PROPOSAL EVALUATION

PRIOR AUDITING EXPERIENCE (0-25)

Number of municipalities/libraries currently being audited by office which will handle audit (Consider governmental units similar in size) (15)

Other governmental experience (10)

REFERENCE RESPONSES (0-25)

Are they happy with firm?

Do they meet deadlines?

Is their staff knowledgeable in municipal accounting and auditing?

Do they have low staff turnover on your audit?

Is the audit partner involved?

QUALIFICATIONS (0-30)

Involvement in municipal activities - organizations, technical committees, etc. (15)

Municipal experience of staff assigned to audit (15)

PROPOSED FEE (0-20)

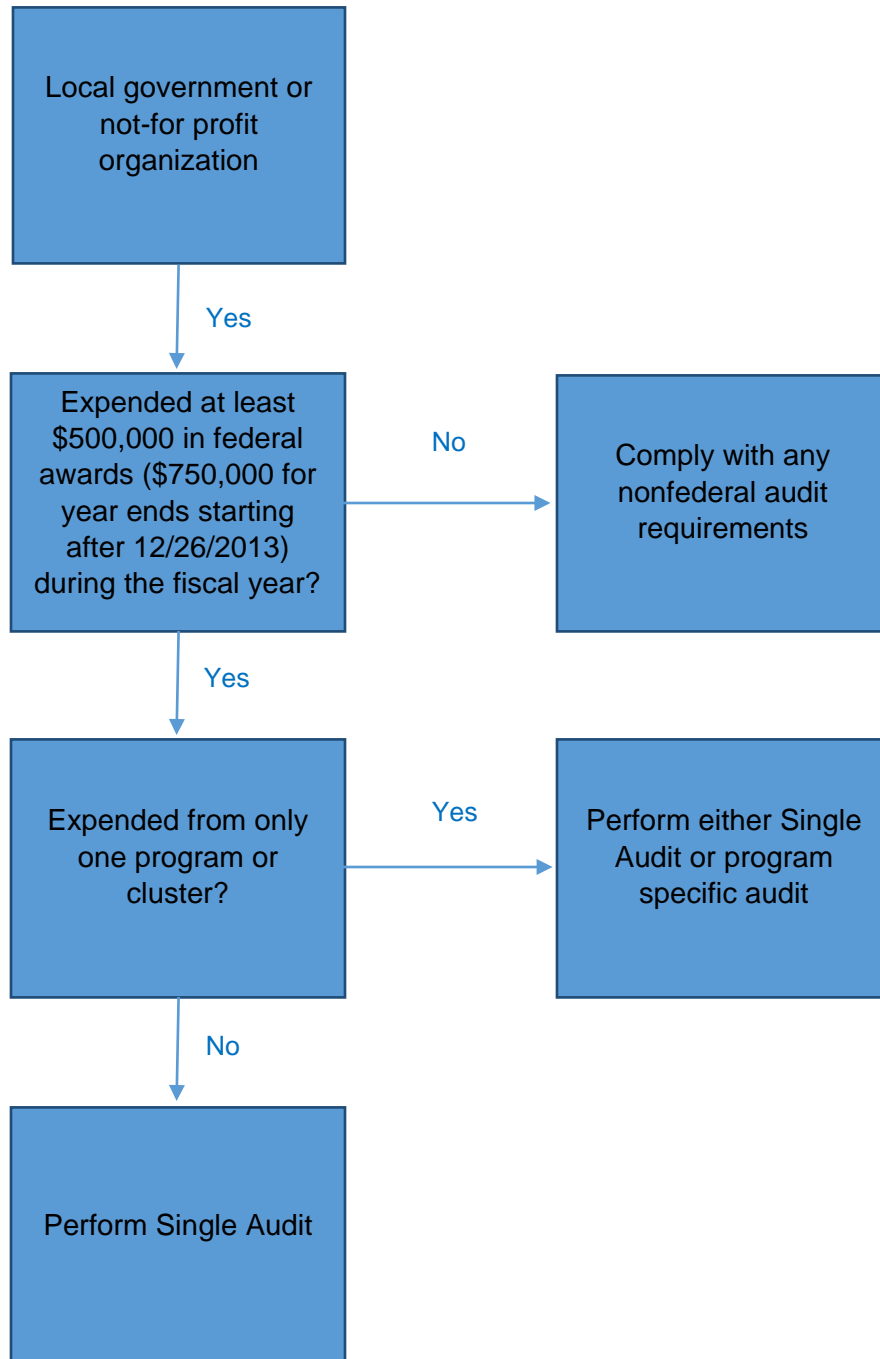
Lowest fee (20)

Fee of specific firm

NOTE - The above suggested allocation of points should be modified based on items your library feels are most important

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DETERMINATION OF APPLICABILITY OF A SINGLE AUDIT



INTERNAL CONTROL QUESTIONNAIRE

The accompanying questionnaire can be used as a tool to identify areas where internal controls are weak or could be improved. Any "No" answer is indicative of a potential internal control weakness. Consideration should be given to changing existing procedures, where practical and cost beneficial, so that a "yes" answer can be given to the question. It is possible that a "yes" answer still cannot be given. This is often the case for small libraries that may only have one individual to perform financial functions. If a "yes" answer still cannot be given, consult with your CPA to ensure that sufficient offsetting factors exist.

	Answer	
	<u>Yes</u>	<u>No</u>
I. CASH RECEIPTS		
1. Is the mail opened by someone other than the library's bookkeeper (e.g. the Library Director)?	_____	_____
2. Are receipts recorded by cash registers or other mechanical devices?	_____	_____
3. If not, is a separate cash drawer used that is kept locked when unattended?	_____	_____
4. Are each day's receipts deposited in the bank intact and without delay?	_____	_____
5. Does someone other than the bookkeeper (e.g. the Library Director) take the deposits to the bank?	_____	_____
6. When branch libraries make collections, are such collections deposited in a bank account subject to withdrawal only by the main library?	_____	_____
7. Are rents, taxes, interest, and similar revenues adequately controlled in such manner that their nonreceipt would be noted and investigated?	_____	_____
II. CASH DISBURSEMENTS		
1. Are all disbursements, except from petty cash, made by check?	_____	_____
2. Are all checks prenumbered?	_____	_____
3. Are voided checks properly defaced or mutilated and held available for subsequent inspection?	_____	_____
4. Are checks required to be countersigned by the treasurer or a board member?	_____	_____
5. Is the signing of checks in advance prohibited?	_____	_____
6. Is the library bookkeeper prohibited from signing checks?	_____	_____
7. Is the practice of drawing checks to "cash" or "bearer" prohibited?	_____	_____

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	Answer	
	Yes	No
II. CASH DISBURSEMENTS (CONTINUED)		
8. If not, are checks so drawn limited to payrolls and/or petty cash reimbursement?	_____	_____
9. Are the bank accounts reconciled monthly?	_____	_____
10. Is the sequence of check numbers accounted for when reconciling the bank accounts?	_____	_____
11. Is the practice of examining paid checks for date, name, cancellation, and endorsement followed by the employee reconciling the bank accounts?	_____	_____
12. Are the invoices or other supporting documents presented together with the checks submitted for signatures?	_____	_____
13. Do the signers review invoices for propriety and appropriateness of account assigned and compare check amounts to invoices before signing checks?	_____	_____
14. If a check-signing machine is in use, are the machine and signature plates kept under effective control?	_____	_____
15. Is the supply of blank checks under effective control?	_____	_____
16. Are the supporting documents cancelled with a "paid" stamp or other mark so as to prevent their use for duplicate payment?	_____	_____
III. PETTY CASH		
1. Is the imprest petty cash (i.e., fixed amount of cash) account system in use?	_____	_____
2. Is the responsibility for the petty cash account vested in one person only?	_____	_____
3. Is the petty cash account kept separate from daily cash receipts?	_____	_____
4. Is disbursement of daily cash receipts prohibited?	_____	_____
5. Has a maximum figure for individual payments from the petty cash account been established?	_____	_____
6. Are payees required to sign petty cash vouchers for all disbursements?	_____	_____
7. Is adequate approval required for petty cash advances to employees?	_____	_____
8. Is the cashing of personal checks and IOUs prohibited?	_____	_____

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		Answer	
		Yes	No
III. PETTY CASH (CONTINUED)			
9.	a. Are vouchers and supporting documents (invoices and receipts) checked by a responsible employee at the time the petty cash account is reimbursed?	_____	_____
	b. Does that employee verify the unexpended balance of the petty cash account?	_____	_____
10.	Are the amounts of the vouchers spelled out in words as well as written in numerals?	_____	_____
11.	Are petty cash vouchers marked "paid" so as to preclude their reuse?	_____	_____
12.	Are checks for reimbursement made out to the order of the petty cash custodian rather than to "cash"?	_____	_____
13.	Is the petty cash account checked at reasonable intervals by surprise counts made by an employee independent of the custodian of the account?	_____	_____
IV. INVESTMENTS			
1.	Are securities kept in a safe deposit vault in the name of the library?	_____	_____
2.	If not, are they kept in safekeeping by an independent person?	_____	_____
3.	Is a record kept by the bookkeeper of each security, including certificate numbers?	_____	_____
4.	Are securities periodically inspected and reconciled with the records by an employee other than the bookkeeper?	_____	_____
5.	Are purchases and sales of securities authorized by the board, a board committee, or an officer?	_____	_____
6.	Are satisfactory records kept to ensure the proper and prompt receipt of income on securities owned?	_____	_____
7.	Has an investment policy been adopted by the board and have all financial brokers, bankers and trustees agreed in writing to comply with the policy?	_____	_____
8.	Are the provisions of the investment policy being followed?	_____	_____

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	Answer	
	Yes	No
V. PURCHASES AND EXPENSE/EXPENDITURES		
1. Is the budget reviewed before ordering goods?	_____	_____
2. Are vendors' invoices recorded in the accounts payable journal immediately upon receipt?	_____	_____
3. Are the invoices checked:		
a. Against purchase orders ?	_____	_____
b. Against receiving reports (as to quantity and condition)?	_____	_____
4. Are invoices approved for payment by a responsible official?	_____	_____
5. Is there a definite responsibility for the checking of invoices as to:		
a. Prices and credit terms?	_____	_____
b. Clerical accuracy?	_____	_____
c. Freight charges or allowances?	_____	_____
6. Is a designated employee made responsible for the determination of the proper account distribution of invoices (pursuant to an established accounting policy) to general ledger accounts?	_____	_____
7. Are the vouchers, supporting invoices, and account distributions reviewed and initialed by an employee other than the bookkeeper before payment is authorized?	_____	_____
8. Is a listing of outstanding accounts payable balanced monthly with the general ledger account?	_____	_____
9. Are statements received from vendors regularly checked by the bookkeeper against the open accounts payable listing?	_____	_____
10. Is a postage meter used for outgoing mail?	_____	_____

VI. PAYROLL

Because there is a wide range of library sizes and a wide range of number of employees at libraries, it is difficult to develop generic internal control guidelines for payroll. However, the following concepts concerning payroll would apply for all libraries:

- Employees should be paid only for those hours worked
- Employees should be paid at the correct rate of pay

Libraries should ensure that an appropriate official performs a review of the appropriate records to verify that employees are paid for hours worked at the correct rate of pay. An appropriate official may be a board member, library director or department head.

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Glossary of Terms

Account

Accounts are used to accumulate similar accounting transactions and complete a total, either cumulative or for a given period of time. For example, Salaries and Wages Expenses - Library Personnel is an account used to collect the payroll cost of the library personnel.

Accounting

Accounting is the process of identifying, recording, classifying, and reporting information on economic events in a logical manner for the purpose of providing financial information for decision making.

Accounts Payable and Accrued Liabilities

Short-term liability accounts reflecting amounts due to individuals or organizations for goods and services purchased by a library.

Accounts Receivable

Asset account reflecting amounts due from individuals or organizations for goods and services furnished by a library.

Accrual Basis

A method of accounting whereby revenue is recorded when earned (regardless of when received) and expenses are recorded when incurred.

Aging Reports

A report listing each customer's outstanding balance for accounts receivable or amount due to vendors for accounts payable sorted by days outstanding/past due. These are typically sorted in columns such as: Current, 1-30 days, 31-60 days, 61-90 days, 91-120 days, and 120+ days. The report allows the reader to see which customers are behind in meeting the agreed upon terms for accounts receivable or what is still owed to vendor's for accounts payable.

American Institute of Certified Public Accountants (AICPA)

The world's largest member association representing the accounting profession. They set ethical standards for the profession and U.S. auditing standards for private companies, nonprofit organizations, federal, state, and local governments.

Annual Report

A financial report prepared annually that includes a library's financial statements.

Asset

Something of value owned by a library.

Audit

Auditing is a set of procedures performed to express an opinion as to whether the financial statements present the financial information fairly, in all material respects, in conformity with generally accepted accounting principles.

Audit Trail

Ability to follow through the accounting system a complete set of accounting records supporting a transaction.



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Auditor's Report

A statement by the auditor describing the scope of the audit, auditing standards applied in the examination, and setting forth the auditor's opinion on 1) the fairness of presentation of the financial statements and/or 2) the library's compliance with laws and regulations.

Balance Sheet

The financial statement disclosing assets, liabilities, and fund balance of a library at a specified date in conformity with generally accepted accounting principles.

Basis of Accounting

A term which refers to when revenue and expenditures and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement. Commonly used bases of accounting are cash, modified-accrual, and accrual.

Bond

A written promise to pay a specified sum of money (called the face value or principal amount), at a date or dates in the future, called the maturity date(s), together with periodic interest at an agreed upon rate. The difference between a note and a bond is that the latter is issued for a longer period and requires greater legal formality.

Bonds Payable

The face value of bonds issued and unpaid at any given point in time.

Budget

A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period and the means of financing them. In the State of Michigan, all General and Special Revenue Funds are required by law to be budgeted annually.

Capital Assets

Long-lived assets obtained or controlled as a result of past transactions, events, or circumstances. Capital assets include buildings, furniture, equipment, improvements, and land.

Capital Expenditures

Expenditures resulting in the purchase of or addition to a governmental library's capital assets.

Capitalization Policy

The criteria (i.e., dollar cut-off) used by a library to determine which purchases should be reported as capital assets.

Capital Projects Fund

A fund used to account for development of capital facilities, such as an addition to a building.

Cash Basis

A basis of accounting under which transactions are recognized only when cash is received or disbursed.

Cashier

An individual responsible for collecting cash usually at the circulation desk of a library.



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Certificate of Deposit

A deposit instrument issued by a bank that usually pays interest. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.

Certified Public Accountant (CPA)

An accountant who has met all the statutory and licensing requirements of a given state for use of that designation. All U.S. states require accountants, at a minimum, to complete successfully a uniform national examination before being allowed to designate themselves as CPAs.

Check

A written order to a bank to pay on demand a specified sum of money to a named payee out of money on deposit to the credit of the maker.

Commercial Paper

Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

Compliance Audit

An audit for compliance with applicable laws and regulations.

Component Unit

A component unit is a legally separate organization for which the primary government is financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Confirmation

Process by which an auditor submits requests to banks and other entities to independently verify cash, investment, receivable, debt, and other balances reflected on a government unit's financial records.

Contingent Liability

Items that may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed within the financial statement notes when there is a reasonable possibility a loss may have been incurred.

Current Financial Resources

Current financial resources is a modified accrual concept, in which a governmental fund focuses primarily on the sources, uses, and balances of currently available individual funds and has a budgetary orientation. "Financial resources" refers to assets that are spendable, i.e., cash or claims to cash; "current" refers to resources that will be converted to cash within a short period (30 to 60 days), or claims against the library's resources (i.e., liabilities) that are normally liquidated within a short time period.

Debt

An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of libraries usually include bonds and notes, and installment purchase agreements.

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Debt Proceeds

The amount of money received upon issuing debt. Debt proceeds will typically differ from the debt principal amount due to bank fees, etc.

Debt Service Fund

A fund used for annual payment of principal, interest, and expenses in connection with certain long-term debt.

Deferred Inflows

Acquisition of resources that are applicable to future reporting periods that will be reported in a separate section after liabilities.

Deferred Outflows

A consumption of resources that are applicable to a future period that will be reported in a separate section following assets.

Deficit

An excess of the liabilities of a fund over its assets.

Disbursements

Payments in cash or by check.

Due from Other Funds

An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered.

Due to Other Funds

A liability account reflecting amounts owed by a particular fund to another fund for goods sold or services rendered.

Encumbrances

Commitments related to unperformed contracts for goods or services (e.g., purchase orders, executed contracts, etc.). Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result when unperformed contracts in process are completed or purchase orders are filled.

Endowment Fund/Permanent Endowment

A fund used by a library in which a donor has directed that the principal is to be maintained and only the income from the investment of the fund may be expended.

Enterprise Fund

A fund used to report any activity for which a fee is charged to external users for good or services.

Entry

The record of a financial transaction in the accounting records.



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Expenditures

A modified-accrual term used by governmental libraries to describe reductions in net financial resources. Expenditures include current operating expenses requiring the use of net current assets, debt service, and capital outlays.

Expenses

An accrual basis term used to describe the consumption of goods or services. This would include depreciation, but does not include payments of long-term debt or purchases of capital assets.

Extraordinary item

Extraordinary items are transactions or other events that are both “unusual in nature” and “infrequent in occurrence”. These are shown separately in the financial statements and explanatory note disclosures also required.

Financial Accounting Standards Board (FASB)

A designated organization in the private sector who establishes standards of financial accounting that governs the preparation of financial reports by nongovernmental organizations. Those standards are officially recognized as authoritative by the Securities and Exchange Commission (SEC) and the American Institute of Certified Public Accountants.

Financial Statement Audit

Auditing procedures sufficient to provide reasonable assurance about whether financial statements present fairly the financial position and results of library operations in conformity with generally accepted accounting principles.

Financial Statements

Financial statements are a collection of reports about the library’s financial results and condition. They include footnotes, necessary for the fair presentation of the financial position and results of operations of a library. The minimum requirement to be in conformity with GAAP includes a balance sheet and a statement of revenue and expenditures. A budgetary comparison statement is also required for governmental libraries, unless a budgetary comparison schedule is presented as RSI.

Fiscal Period

A twelve-month period for which the annual operating budget relates to and at the end of which a library reports its financial position and the results of its operations.

Fund

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves and equities that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Fund Balance

The difference between assets and liabilities of a governmental fund.

Fund Type

Any one of several categories into which all funds are classified. The fund types are: general, special revenue, debt service, capital projects, and trust for governmental libraries.



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General Fund

The fund used by governmental libraries to account for most financial resources, except those required to be accounted for in another fund.

General Journal

A journal in which are recorded all entries not recorded in **subsidiary ledgers** such as cash receipt or cash disbursement journals. This term is mostly applicable to manual accounting systems.

General Ledger

A record containing the accounts needed to reflect the financial position and the results of operations of a library. In double-entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances).

Generally Accepted Accounting Principles (GAAP)

Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompasses the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to not-for-profit libraries is the FASB and to governmental libraries is the GASB.

Generally Accepted Auditing Standards (GAAS)

Standards established by the American Institute of Certified Public Accountants (AICPA) for the conduct and reporting of financial audits. There are 10 basic GAAS, classed into three broad categories: general standards, standards of field work, and standards of reporting. The Auditing Standards Board of the AICPA publishes Statements on Auditing Standards (SAS) to comment and expand upon these basic standards. These SAS, together with the 10 basic standards, constitute GAAS. These GAAS set forth the objectives of the audit and establish measures that can be applied to judge the quality of its performance.

Government Audit Standards (GAS)

Standards established by the U.S. General Accounting Office (GAO) in its publication *Government Auditing Standards* ("Yellow Book") for the conduct and reporting of financial and compliance audits. GAS set forth general standards applicable to audits and separate standards of field work and reporting for audits. The GAS standards of field work and reporting for financial audits incorporate and build upon GAAS.

Governmental Accounting Standards Board (GASB)

The authoritative accounting and financial reporting standard-setting body for governmental libraries.

Governmental Accounting Standards Board Statement

A statement issued by the GASB specifying the accounting principles and practices to be used by governmental libraries for financial reporting or to account for a particular financial transaction.

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Governmental Funds

Governmental funds are used to account for most typical governmental functions focusing on the acquisition, use, and balances of a library's expendable financial resources and the related current liabilities. The accounting for governmental funds has a budget orientation using the current financial resources measurement focus and the modified accrual basis of accounting. There are five types of governmental funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent Funds.

Government Wide Financial Statements

Government-wide financial statements are prepared using the total economic resources measurement focus and the full accrual basis of accounting. As a result, they report all of the assets, liabilities, revenues, expenses, and gains and losses of the entire governmental unit.

Grants

Contributions of cash or other assets from a government or not-for-profit entity to be used or expended for a specified purpose, activity, or facility.

Independent Audit

A financial statement audit performed by a Certified Public Accountant (CPA) or CPA firm. The CPA and/or firm is required to maintain independence in fact and in appearance while performing these attest services.

Independent Auditor

An auditor meeting the independence criteria set forth in GAAS and/or GAS. In order to maintain independence, an auditor cannot be an employee of the library or a member of the library's board or management. The independent auditor cannot make management decisions on behalf of the library.

Internal Controls

Policies and procedures established to provide reasonable assurance that specific organization objectives will be achieved.

Investment Pool

A combination of resources for a common purpose or benefit. For example, a bank pools the funds of its customers, giving them an opportunity to share in a portfolio offering greater diversification and the hope of a better return on their money than they could get individually.

Investments

Most commonly, securities held to generate interest and dividend revenue.

Ledger

A group of accounts in which are recorded the financial transactions of the library. See General Ledger and Subsidiary Ledger.

Liabilities

Amounts owed to others.

Long-term Debt

Any debt which matures (i.e., is due) in more than one year from the date of issuance.



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Major Funds

A concept created by GASB Statement number 34 in order to focus the financial reporting on funds that represent a significant portion of a government's activities. The determination of what constitutes a major fund is based on a mathematical formula. The General Fund of a government is always reported as a major fund. Additionally, governments may choose to report as major funds that do not meet the mathematical criteria if they believe that they are important to financial statement users.

Major Program

Major programs are federal programs selected for specific testing by an auditor using a risk based approach prescribed by OMB Circular A-133. They are generally the largest and/or riskiest federal programs of the entity. Auditors select at least one major program during every single audit.

Management's Discussion and Analysis (MD&A)

MD&A is a required part of the supplemental information that introduces the basic financial statements and provides an analytical overview of the financial activities.

Measurement Focus and Basis of Accounting

The term "measurement focus" is used to differentiate 'what' accountants attempt to measure and report in a fund's operating statement. "Basis of accounting" refers to the 'when' items are measured.

Modified Accrual Basis

The accrual basis of accounting adapted to the governmental fund-type measurement focus. Revenue is recorded when collected or collectible soon enough to be used to pay current liabilities (referred to as "available"). "Available" generally means collectible within 30 to 60 days. Expenditures are recorded when incurred (i.e., when the goods are received or the services rendered), not when cash is paid or when an invoice is received. Some special rules may apply, for both revenues and expenditures, but these are the general rules.

Mutual Fund

Fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer investors the advantages of diversification and professional management. For these services, they charge a management fee, typically 1% or less of assets per year.

Net Position

The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide financial statements.

Notes Payable

In general, an unconditional written promise signed by the maker to pay a certain sum of money on demand or at a fixed or determinable time either to the bearer or to the order of a person designated therein.

Notes to the Financial Statements

The narrative disclosures required for fair presentation of the financial statements of a library in conformity with GAAP. The notes are a separate section of the annual report and not included on the face of the financial statements themselves.



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Glossary of Terms

Operating Transfers

Board authorized (budgeted) transfers from a fund receiving revenue to the fund through which the resources are to be expended.

Other Financing Sources

For a governmental library long-term debt proceeds, proceeds from the sale of capital assets, and operating transfers in. Such amounts are classified separately from revenue on the operating statement.

Other Financing Uses

Operating transfers out for a governmental library. Such amounts are classified separately from expenditures on the governmental library operating statement.

Permanent Fund

A fund type created by GASB Statement number 34 that are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Petty Cash

Cash to make change or to pay small obligations for which the issuance of a formal check would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash funds. However, they are not "funds" in the sense of not-for-profit or governmental accounting individual funds. Petty cash accounts should be reported as assets in the fund of ownership.

Pledge

A promise to make a contribution to a library in an amount and form stipulated.

Prepaid Expense

An asset account representing payment in advance of the receipt of goods and services (e.g., prepaid rent and unexpired insurance premiums).

Principal

In the context of debt, the face amount borrowed and payable on stated dates of maturity.

Proprietary Funds

Proprietary funds are used to account for an entity's ongoing organizations and activities that are similar to those often found in the private sector. These funds are considered self-supporting in that the services rendered by them are generally financed through user charges or on a cost reimbursement basis. Proprietary funds use the economic resources measurement focus and the accrual basis of accounting. There are two types of proprietary funds: enterprise funds and internal service funds.

Purchase Order

A document authorizing the delivery of specified merchandise or the rendering of certain services and related obligation to pay for them.

Receipts

Cash or checks received.



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Register

A record for the consecutive entry of a certain class of transactions, with proper notation of all the required details (i.e., a cash disbursement journal is also sometimes called a check register).

Remittance Advice

A listing sent from a customer to their supplier (generally accompanying a check), informing the supplier which invoice(s) have been paid. The advice may contain elements such as the invoice number and invoice amount, among others. Although they are optional, they ease the process of matching invoices and payments for the applier and are considered a useful service.

Repurchase Agreement

Investment agreement between a seller and a buyer, usually for U.S. Government securities, whereby the seller sells securities and agrees to repurchase them at an agreed upon price and, usually, at a stated time. For the investor, this is an opportunity to invest cash for a customized period of time. It is short-term and safer as a secured investment.

Required Supplementary Information (RSI)

As required by various GASB standards, RSI provides additional information that is necessary for users of financial reports to evaluate certain financial aspects of a governmental unit's operation.

Revenue

Increases in the assets of a library other than through the issuance of debt or incurrence of a liability.

Salaries and Wages Payable

A liability account reflecting salaries and wages earned by employees but not due until a later date.

Securities

A negotiable or nonnegotiable instrument that signifies an ownership interest, or right to an ownership interest or creditor status.

Schedule of Expenditures of Federal Awards

Schedule included in a Single Audit report that lists federal program information, including program name, federal identification information, expenditures, and award amounts.

Short-Term Debt

Debt with a maturity of one year or less after the date of issuance.

Single Audit

An audit of an organizations federal programs as required by the Single Audit Act of 1996 (P.L. 104-156) (as amended) performed in accordance with OMB Circular A-133. A single audit is required when annual federal expenditures exceed \$500,000 or more than \$750,000 for year ends starting after 12/26/2013.

Special Items

Special items are significant transactions or other events within the control of management that are either "unusual in nature" or "infrequent in occurrence".



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Special Revenue Fund

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Statement of Activities

The Statement of Activities is designed to report the results of the government's operations (changes in net position). The Statement of Activities is presented using the full accrual basis of accounting.

Statement of Revenues, Expenditures, and Changes in Fund Balance

The financial statement that is the governmental library's GAAP operating statement. It presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in an entity's net current assets.

Statement of Net Position

The Statement of Net Position displays all of the assets, liabilities, and deferred outflow/inflows applicable to the library. The Statement of Net Position reports the components and balances of the government's net economic resources at year end that can be used to provide future services. The Statement of Net Position is presented using the full accrual basis of accounting.

Subsidiary Ledger

A listing of similar transactions such as cash receipts or cash disbursements, the sum of which will equal the balance of the related control account.

Total Economic Resources

Total economic resources is a full accrual concept where a government reports its financial condition and results of operations on a full accrual basis of accounting. The concept applies to the government wide financial statements and includes all assets and liabilities, both current and non-current.

Trial Balance

A list of the balance of the accounts in a ledger kept by double entry, with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or if their net balance agrees with a control account, the ledger from which the figures are taken is said to be in balance.

Trustee

A fiduciary holding property on behalf of another.

Voucher

A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.