PUBLIC LIBRARY
FINANCIAL MANAGEMENT GUIDE
SEPTEMBER 2021

Prepared by Yeo & Yeo CPAs & Business Consultants

LIBRARY OF MICHIGAN

INSTITUTE of Museum and Library SERVICES

MICHIGAN Department of Education

YEO & YEO CPAs & BUSINESS CONSULTANTS

TABLE OF CONTENTS

Preface	Preface	4
Chapter 1	Accounting for Libraries	6
Chapter 2	Assets and Deferred Outflows of Resources	18
Chapter 3	Liabilities and Deferred Inflows of Resources	21
Chapter 4	Fund Balance / Net Position	27
Chapter 5	Revenues and Expenditures	32
Chapter 6	Budgeting	36
Chapter 7	Financial Reporting	40
Chapter 8	The Audit Process	45
Chapter 9	Grants and Federal Audit Requirements	53
Chapter 10	Internal Controls	57
Chapter 11	State Compliance	64
Appendix 1	Sample Internal Reporting	71
Appendix 2	Sample External Reporting	74
Appendix 3	Sample Policies	79
Appendix 4	Sample Budget	89
Appendix 5	Sample Request for Proposal of Audit Services	90
Appendix 6	Sample Schedule of Expenditures of Federal Awards (SEFA)	94
Appendix 7	Internal Control Questionnaire	97
Glossary	Glossary of Terms	101

PREFACE

The Public Library Financial Management Guide provides library directors, staff, and board members with helpful information to perform accounting and financial management functions. This 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.

A summary of basic accounting topics are found in the first few chapters, with detailed explanations of various areas provided in later chapters. Each chapter has been arranged to present summary information up front, with more in-depth information and exhibits following. At the end of each chapter is a list of resources that may be used for further reference or guidance.

Clickable links and bookmarks are provided throughout the guide to assist with navigation throughout the entire document, which is optimized for electronic viewing and use. It can also be printed in its entirety, if desired.

Most libraries within the State of Michigan are a type of governmental entity, and therefore are required to use a specialized form of accounting which is directed by the Governmental Accounting Standards Board (GASB). Although this Guide has relevant information for libraries of various types and sizes, the main focus is on governmental libraries. This Guide provides basic information and is a helpful tool, however, it is not possible to cover every anticipated question about library accounting, budgeting, and financial reporting. Seek assistance as needed from your accounting and legal advisors.

This guide can also be found online at www.michigan.gov/librarymanuals.

ABOUT YEO & YEO CPAS & BUSINESS CONSULTANTS

Yeo & Yeo CPAs & Business Consultants is a leading Michigan accounting firm. Since 1923, Yeo & Yeo's team of over 200 industry-specialized accountants and consultants have provided clients with forward-thinking, comprehensive solutions in accounting, audit, tax, technology, and business consulting. Providing services to governmental entities such as public libraries is an area of focus for the firm, from traditional accounting and audit services to GASB requirements and internal controls, Yeo & Yeo currently serves over 220 governmental clients and performs over 100 single audits annually.

ABOUT THE AUTHORS

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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 specific to libraries. A brief outline of the chapter follows:

Section 1 – Introduction to Library Accounting
Section 2 – Governmental Accounting Standards
Section 3 – Basis of Accounting
Section 4 – Fund Accounting
Section 5 – Types of Accounting Transactions
Section 6 – Double Entry Accounting and Journal Entries
Section 7 – Annual Financial Statements
Section 8 – Accounting Software
Section 9 – Resources

SECTION 1
INTRODUCTION TO LIBRARY ACCOUNTING

LIBRARY TYPES

Financial management and governance of libraries within the State vary depending on how a particular library was established. State laws govern how libraries are organized, levy taxes, issue and pay for debt, qualify for state-shared revenue, and perform other business functions, so it is important that the governing body and management know how their library was established. Refer to the Library Law Handbook and the District Library Law Handbook from the Library of Michigan for detailed information concerning legal matters for the specific type of library.

The six different types of Michigan public libraries include the following:

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

Additionally, there are three different types of City libraries and two different types of Township libraries:

CITY

- City Library (created by Charter, Resolution, or Ordinance) under City, Village, and Township Libraries Act – Public Act 164 of 1877, section 1 (MCL 397201)
- City Library under City, Village and township Libraries Act – Public Act 164 of 1877, section 10a (MCL 397210a)
- Home Rule City Library under Home Rule City Act – Public Act 279 of 1909, section 4e (MCL 1174e)

TOWNSHIP

- Township Library under City Village and Township libraries Act – Public Act 164 of 1877, section 10 (MCL 397210)
- Charter Township Library under The Charter Township Act – Public Act 359 of 1947, section 13a (MCL 4213a)

If it is unknown how a library was established, please contact the Library of Michigan for further guidance:

Library Development
General Information
(517) 335-1516

PURPOSE OF AN ACCOUNTING SYSTEM

The purpose of an accounting system is (a) to display that all applicable legal provisions have been complied with; (b) to represent the financial position at a given point in time (Balance Sheet), and (c) to present the results of financial operations of a specified period of time (Income Statement). An accounting system is also used to show both current and historical data.

USERS OF LIBRARY FINANCIAL INFORMATION

- Taxpayers
- State Treasurer/Oversight Bodies
- Administrative/Finance
- Bond Rating Agencies
- Intergovernmental (Grantors)
- Contributors/Creditors
- Management
- Employees (and their unions)

FUNCTION OF ACCOUNTING

Accounting is multi-functional, and includes gathering, recording, analyzing, and presenting the financial information of the library.

GATHER FINANCIAL INFORMATION

Financial information includes revenue received and expenses paid, generally in the form of transactions and the documentation that supports them. This supporting documentation is also referred to as source documents. Source documents are maintained by the library and all accounting transactions can be traced back to these documents. Gathering of documents provides a mechanism to collect information so it can be approved, summarized, and recorded.

RECORD FINANCIAL INFORMATION

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, though the authors of this guide do not recommend the use of QuickBooks. 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. Manual ledgers are not recommended and the use of accounting software is considered a best practice.

ANALYZE FINANCIAL INFORMATION

Analysis of financial information is critical to decision makers. Management, as well as other users, interpret the financial data in various formats depending on the type of decision being made. For instance, a library may want to compare its cash balance to prior years and then will investigate, or analyze, the revenues and expenditures comparatively to determine the cause for the increase or decrease. Another example would be if the board analyzed financial information to explore ways to reduce specific costs in the current year or to adopt budgeted amounts for the following year.

PRESENT FINANCIAL INFORMATION

Financial data is summarized in a prescribed format so that the information is consistent from year to year and comparative to other libraries. Consistent presentation enables users of the financial statements 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
GOVERNMENTAL ACCOUNTING STANDARDS

Governmental entities, including libraries, are fundamentally different from for-profit businesses and thus both the accounting and financial reporting is different. The Governmental Accounting Standards Board (GASB) is the primary standard-setting body and is recognized as the official source of generally accepted accounting principles (GAAP) for state and local governmental entities.

In order to meet the evolving environment and the changing needs of the users of governmental financial reports, the GASB issues standards and other communications that result in improved accounting and financial reporting and decision-useful information. GASB standards and guidance can be found on their website at www.gasb.org

According to the GASB, the objective of 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.
- 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 3
BASIS OF ACCOUNTING

A 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 financial performance.

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

CASH BASIS

The cash basis method is similar to a checkbook method used at home and is generally the simplest method. Many smaller libraries operate on a cash basis. However, in order for financial statements to be in compliance with GAAP, the modified accrual and full accrual accounting methods must be used (discussion follows in next sections). Normally, smaller libraries will operate during the year on a cash basis, then post modified accrual and full accrual adjustments only at year-end.

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

MODIFIED ACCRUAL BASIS

In accordance with GAAP, the modified accrual basis of accounting is required for governmental funds (see further discussion in Section 4 of this chapter for a description of governmental funds). The focus of the modified accrual basis is on current financial resources.

- Revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be readily determined and "available" means collectible within the current period or soon enough thereafter to be used to pay for costs that have been incurred in 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 generally include property taxes, state and federal aid, and interest revenue. A common type of revenue that is not considered available and should not be recorded as a current year revenue would be a grant reimbursement that is not expected to be received within 60 days after the end of the reporting period.
- Expenditures are recorded when incurred, with a few exceptions. "Incurred" means when the goods are received or the services are rendered, not when cash is paid nor when an invoice is received.
- Certain long-term assets and long-term liabilities are not recorded, such as capital assets and debt obligations.
- Accruals (receivables and payables) are recorded for items that are considered earned or incurred, but payment has not been received nor made. Accruals are recorded in balance sheet type accounts.

FULL ACCRUAL BASIS

The full accrual basis of accounting is required for the government-wide financial statements. After the accounting records of the individual funds have been completed on the modified accrual basis, the library will then also present government-wide financial statements on the full accrual basis. These government-wide statements are part of the basic financial statements in accordance with governmental GAAP. Full accrual is the same basis that for-profit companies use. The focus of full accrual basis is on total economic resources, rather than current financial resources.

- Revenue is recognized when earned and the library has the right to collect, regardless of when cash or payment is received.
- Expenses are recorded when incurred, and are allocated to the periods benefitted, regardless of when payment is made.
- Accruals are recorded for items that are considered earned or incurred, but payment has not been received nor made. Accruals are also recorded for non-cash type activities such as accumulated depreciation and deferrals. Accruals are recorded in balance-sheet type accounts.

SECTION 4
FUND ACCOUNTING

A fund is a separately identifiable and independent accounting unit with a self-balancing set of accounts. In other words, the sum of debits and credits within each fund equal zero. Each fund is created for the purpose of carrying on a specific type of activity. Each fund can be thought of as a separate business.

The GASB defines which type of fund must be used for certain types of activities and recommends that the fewest funds as possible be used (GASB Statement No. 54).

There are three broad classifications of funds: governmental funds, proprietary funds, and fiduciary funds. The most common classification of funds used by libraries are the governmental funds.

GOVERNMENTAL FUNDS

Governmental fund types include the general fund, special revenue funds, capital project funds, debt service funds, and permanent funds. Libraries will always use a general fund and occasionally a special revenue fund. Debt service or capital projects funds will be used if the library has a debt issuance or a large capital project. A permanent fund would only be used in rare situations.

GENERAL FUND

The general fund is the main operating fund of the library and accounts for all revenue and expenditures that are not required to be accounted for elsewhere. This fund accounts for the daily revenue and expenditures necessary to operate and provide services of a library. In many cases, this may be the only fund the library maintains. Only one general fund is permitted.

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for and report the proceeds of specific restricted or committed revenue sources in which the expenditures are intended to be used for specific purposes. In many cases, the use of a separate fund is mandatory because of legal or regulatory provisions. Special revenue funds may include dedicated accounting for certain taxes, grants, or donated funds so that the activity within the fund is readily identifiable and not comingled with unrelated or unapproved uses.

CAPITAL PROJECTS FUNDS

Capital projects funds are used to account for and report financial resources that are to be used for capital outlay expenditures. Typically, these funds are established to identify expenditures related to a large construction project or to track the money that has been set aside for future capital needs. In most cases, the use of capital projects funds is optional.

DEBT SERVICE FUNDS

Debt service funds are used to account for and report payment of principal, interest and expenses in connection with certain long-term debt. These funds are also used to report accumulated financial resources related to future payments of principal and interest. Proceeds from bond issues or other types of debt are typically recorded in the general fund or a capital project fund, depending on the stipulations of the debt issuance. Debt service funds cannot loan available resources to other funds. Leftover funds after a bond issue is paid off must be used to pay future debt or can be transferred to the General Fund with board approval.

PERMANENT FUNDS

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the library's programs. An example would be when the library receives an endowment whereby the donor mandates that the corpus remain intact, but the interest earned may be used by the library.

PROPRIETARY FUNDS

Proprietary fund types include enterprise funds and internal service funds. These types of funds, also commonly referred to as business-type funds, are used for activities that are intended to be self sustaining and funded by user fees. These types of funds are rarely, if ever, used by libraries.

FIDUCIARY FUNDS

Fiduciary fund types include pension trust funds, investment trust funds, private-purpose trust funds, and custodial funds (formerly known as agency funds).

GASB 84 – *Fiduciary Activities* establishes criteria for identifying fiduciary activities and how those are to be reported in the annual financial statements.

Activities that meet all the following attributes are accounted for in fiduciary funds under the new standard and are to be reported as such:

- Assets are held under control of the library. Control of the assets means if the Library actually holds the assets or has the ability to direct their use.
- The activity is not solely based on the library's own source revenues. Own source revenues are revenues generated by the library itself, such as property taxes or donations.
- The library has no administrative involvement such as monitoring recipients for compliance, determining eligibility, or direct financial involvement.

Activities that do not meet the specific criteria are reported in other funds of the Library, or potentially not reported at all.

GASB 84 defines the four types of fiduciary funds as follows:

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Pension (and other employee benefit) trust funds are used to accumulate resources to fund pension and other post-employment benefit (OPEB) plans either as defined in GASB Statement No. 67 and 74, respectively, or in a qualifying trust.

INVESTMENT TRUST FUNDS

Investment trust funds are used to report the external portion of investment pools held in a qualifying trust.

PRIVATE PURPOSE TRUST FUNDS

Private purpose trust funds are used to account for funds held in a qualifying trust that are not required to be reported in pension or investment trust funds. These types of funds are used for specific purposes, such as an endowment, that was originally defined by the person or organization that gave the funds to the library.

CUSTODIAL FUNDS

Custodial funds are used to account for and report fiduciary activities that are not required to be reported as another fiduciary fund type. This type of fund was also known as an agency fund prior to the issuance of GASB 84.

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.

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:

  - Date the cash was received
  - Name of the person/organization giving/paying the cash
  - Purpose of the payment (classification)
  - 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 or credit card purchases, all disbursements should be in the form of a check or electronic payment. All transactions should include at least the following information:

  - Date of the disbursement
  - Name of the payee
  - Check number
  - Check amount
  - Purpose or description of the disbursement (classification)

  Petty cash disbursements should be supported by an invoice or receipt and should only be used for small, infrequent purchases.

  Credit card purchases should only be made in accordance with the library's adopted credit card policy and should be supported by receipts and documentation of the business purpose of each transaction. Note: Pursuant to MCL 129.241 et. seq., district libraries may obtain or use their own credit cards, however, municipal libraries must obtain credit cards through their municipality.

- **Accounts Receivable**

  Receivables are revenues that the library has recognized (earned) but not yet collected. At a minimum, receivables should be supported by the following information:

  - Due date of the receivable
  - Name of the person/organization who owes the cash
  - Purpose of the billing (classification)

- Amount of cash expected

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

- **Accounts Payable**

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

  - Due date of the disbursement
  - Name of the payee
  - Amount of the disbursement
  - Description of what the payment is for (classification)

- **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 processed in your accounting software or by a third party payroll provider. The automated payroll system will generally record those transactions automatically into the general ledger. If payroll is processed by a third party provider, a journal entry would have to be performed in the general ledger.

TYPES OF ACCOUNTS

To keep the library's financial data organized, a system is developed that classifies transactions into groups of records called accounts. When your accounting system is set up, the types of transactions most likely to be generated by the library's activities are identified and account names and numbers are created. These account names and numbers are 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:

BALANCE SHEET ACCOUNTS

- Assets
- Deferred Outflows of Resources
- Liabilities
- Deferred Inflows of Resources
- Fund Balance/Net Position

INCOME STATEMENT ACCOUNTS

- Revenues
- Expenditures/Expenses
- Other Financing Sources/Other Financing Uses

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 and consists of an account number and description. The chart of accounts is to the accounting function as what the Dewey Decimal System is to a library. It provides a foundation for arranging financial data into useful and organized 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, MCL 141.421 et. seq., for all Michigan units of government including public libraries. The Uniform Chart of Accounts was most recently revised in 2020. The Uniform Chart of Accounts is also discussed further in Chapter 11 of this Guide. Please see the Department of Treasury website for the revised Uniform Chart of Accounts.

GENERAL LEDGER

The general ledger consists of all accounts the library uses (chart of accounts) and is used to organize the accounting transactions. In an automated accounting system, posted transactions will automatically flow to the general ledger. Summarized account balances and activity are generated from the general ledger to create a trial balance.

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 on a monthly basis, and the balances in receivables and payables should agree with the balances in their respective receivable and payable aging reports.

SECTION 6
DOUBLE ENTRY ACCOUNTING AND JOURNAL ENTRIES

DOUBLE ENTRY ACCOUNTING

The double entry accounting method requires at least one debit and one credit to be made for each transaction. The debits and the credits must equal each other in total for each transaction. This is called a "balanced" transaction.

Generally, the following types of accounts are increased using a debit and decreased using a credit:

- Assets
- Deferred Outflows of Resources
- Expenditures/Expenses
- Other Financing Uses

Generally, the following types of accounts are increased using a credit and decreased using a debit:

- Liabilities
- Deferred Inflows of Resources
- Fund Balance/Net Position
- Revenues
- Other Financing Sources

JOURNAL ENTRIES

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

When making journal entries it is vital to verify that debits and credits equal each other (i.e. the entry is in balance), 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, or not on the same date, an error was made and needs to be fixed. Some accounting software programs verify that entries are balanced, while others do not.

The library should maintain supporting documentation for all journal entries, such as:

- Date of entry
- Journal entry reference number
- Account numbers affected
- Account names
- Debit and credit amounts
- Detailed explanation of why the entry was made

- Identification of the individual who made the entry
- Approval of the journal entry by an individual other than who posted it

There are three primary types of journal entries:

- **General Journal Entries**

  General journal entries are used to account for entries that are non-recurring in nature and are not processed through a receipting or invoicing process within the accounting system. They can also be used to correct or reclassify entries that were previously made to incorrect accounts. An example of this type of entry would be to record interest earned on a bank account.

- **Standard Journal Entries**

  Standard journal entries are used to record recurring entries that are made at regular intervals and to the same general ledger account number but may use different amounts each time they are entered. An example of this type of entry would be to record payroll accruals at the end of each month. In an automated accounting system, these transactions can often be set up to post automatically.

- **Reversing Journal Entries**

  Reversing journal entries are used to 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 after 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 (i.e., salaries payable). On the first day of the next fiscal year, the library will reverse this journal entry by debiting salaries payable 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.

SECTION 7
ANNUAL FINANCIAL STATEMENTS

The basic financial statements include the "balance sheet", "income statement" (to use more common terms), and the notes to the financial statements. For governmental entities, the basic financial statements are presented in two different formats – Government-wide Financial Statements and Fund Financial Statements.

Below is a recap of the similarities and differences between the two types of statements:

BASIC FINANCIAL STATEMENTS

The basic financial statements include the "balance sheet", "income statement" (to use more common terms), and the notes to the financial statements. For governmental entities, the basic financial statements are presented in two different formats – Government-wide Financial Statements and Fund Financial Statements.

Below is a recap of the similarities and differences between the two types of statements:

GOVERNMENT-WIDE STATEMENTS

- Full accrual basis of accounting
- Reports on governmental-type activities and business-type activities in total, not by fund

- Statement of Net Position (balance sheet)
  - Includes long-term assets such as capital assets and the related accumulated depreciation
  - Includes long-term liabilities such as debt
  - Equity balance is expressed as Net Position
- Statement of Activities (income statement)
- Program-based presentation such that expenditures are matched to revenues of the respective program or function
- General revenues are presented separately from the program-based revenues

FUND FINANCIAL STATEMENTS

- Modified accrual basis of accounting for governmental funds
- Full accrual basis of accounting for proprietary and fiduciary funds
- Reports by fund and fund type
- Government Funds Balance Sheet
  - Does not include long-term items such as capital assets and debt
  - Fund Balance - Non-spendable, restricted, committed, assigned, and unassigned
- Statement of Revenues, Expenditures, and Changes in Fund Balance (income statement)
- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

The Notes to the Financial Statements explain in greater detail the items that are on the face of the financial statements. For instance, the face of the financial statements will show one large amount for debt obligations, but the notes to the financial statements will display which type of debt obligations make up that total with a schedule of required future payments.

SUPPLEMENTARY INFORMATION

Supplementary information includes the Management's Discussion and Analysis, budgetary comparison schedules, pension schedules, other post-employment benefit schedules, combining statements, and any other information such as debt or capital asset schedules the library may elect to include. Certain supplementary information is required to comply with governmental GAAP.

SECTION 8
ACCOUNTING SOFTWARE

There are several 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.
- **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 considered when planning the implementation.

SECTION 9
RESOURCES

Library of Michigan – Focus on Establishment Issues
https://www.michigan.gov/libraryofmichigan/libraries/admin/librarylaw/libestablish/focus-on-establishment-issues

Michigan Public Library Trustee Manual
https://www.michigan.gov/libraryofmichigan/-/media/Project/Websites/libraryofmichigan/For-Libraries/Administration/Trustees/LM_TrusteeManual_2020.pdf

Facts About GASB – Who, What, and Why?
http://www.dl.edi-info.ir/Facts%20about%20GASB.pdf

Why Governmental Accounting and Financial Reporting Is – And Should Be – Different
https://www.nasra.org/files/Topical%20Reports/GASB/gasbdifferent.pdf

CHAPTER 2 – ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with an understanding of common assets and deferred outflows of resources libraries may have, as well as related policies and requirements.

Section 1 – Assets
Section 2 – Deferred Outflows of Resources
Section 3 – Related Policies and Requirements
Section 4 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should first read Chapter 1 – *Accounting for Libraries*, with particular emphasis on Section 3 – *Basis of Accounting* and Section 7 – *Annual Financial Statements*.

SECTION 1
ASSETS

Assets are resources that a library presently has the capacity to utilize that enables it to provide services. Assets are classified as current or non-current and are reported in both the statement of net position and the governmental fund balance sheet

CURRENT ASSETS

Current assets are those assets that are so readily convertible to cash or cash equivalents that they can be used to satisfy library obligations during the course of the upcoming year. Common current assets include:

- **Cash and cash equivalents:** Cash on hand in addition to money in checking, savings, money markets, and certificates of deposit (CDs) with original maturities of three months or less.
- Investments: CDs with maturities greater than three months, but less than one year, as well as other types of investment instruments 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, MCL 129.91** et. seq. regulates the available types of investments.
- Accounts receivable: Revenue that has been earned, but not yet collected.
- **Taxes receivable:** Similar to accounts receivable, taxes receivable recognizes taxes that were earned during the current period but not yet collected.
- **Due from other governmental units:** Amounts collected by other governments on behalf of the library and have been earned by the library but not yet received. Examples include state shared revenue and grant revenue.
- Due from other funds: Transactions that occur between different funds of a library when one fund pays for an item that another fund benefits from, or when one fund provides services to another fund. These amounts must be repaid by the other funds. Correspondingly, the benefitted fund must record the same amount in a "due to other funds" account. All due from other funds (asset) and due to other funds (liability) accounts across all funds of the library must equal zero.
- Prepaid expense: When cash has been paid prior to the expense being incurred. Common examples of recognition of a prepaid expense ("prepaids") is the prepayment of liability insurance that is effective for future dates or paying for books prior to taking possession of them.
- **Accrued interest receivable:** Interest earned on investments, but not yet received.

NON-CURRENT ASSETS

Non-current assets are not readily convertible to cash or 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 items that exceed a pre-defined dollar-value threshold with a useful life of more than one year. The Government Finance Officers Association (GFOA) recommends a $5,000 threshold, but this can be adjusted up or down as needed. Examples of capital assets include land, construction in progress, buildings, equipment, land improvements, library books, works of art, collections, and vehicles. Capital assets are recorded at historical cost and include ancillary charges that are directly attributable to the asset acquisition, such as freight and transportation charges.

  Capital assets are "depreciated" over the asset's useful life. In other words, depreciation records the expense of the capital asset by spreading the cost of the capital asset over the periods that it benefits. To calculate annual depreciation expense, the library must estimate what the useful life of the item is. The useful life is generally expressed as 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 depreciation expense amount. The accumulated depreciation expense is also recorded as a contra-asset account. Capital assets, accumulated depreciation, and depreciation expense are only recorded on the government-wide financial statements, not on fund financial statements.

  Assets with acquisition costs that are individually less than the threshold for capitalization of an individual asset (i.e. library books) should be capitalized if the purchase in the aggregate is significant. Past guidance from the GASB allowed libraries the option to expense these materials if desired but starting with periods beginning after June 15, 2023 these items should be capitalized and depreciated. Earlier adoption is allowed. When this change in policy is made, it should be retroactively applied by restating all prior periods presented. This means that all library books/materials purchased within the period of the assigned useful life of the assets would need to be recorded through a prior-period adjustment to the annual financial statements in the year of adoption. If the assigned useful life of these materials was five years, then this would be calculated by adding up all applicable purchases in the last five years, calculating straight-line depreciation for those years (i.e. 20% per year), and recording the adjustment for the net amount.

RESTRICTED ASSETS

Sometimes a library receives cash, or other items of monetary value, that must be set aside and used for a specific purpose, primarily to fulfill regulatory, contractual, or donor requirements. Amounts that are restricted are required to be separately identified as such. Restricted assets can be classified as current or non-current assets, depending on their nature.

SECTION 2
DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources are a consumption of resources that are applicable to a future period and includes transactions that do not meet the definition of an asset. Deferred outflows of resources are reported in a separate section following assets in the statement of financial position as well as the governmental fund balance sheet. Some examples of deferred outflows of resources are deferred amounts resulting from pension and other post-employment benefit valuations, or deferred charges related to debt refunding.

SECTION 3
RELATED POLICIES AND REQUIREMENTS

There are certain board policies the library should adopt in association with the assets listed above. The adoption of formal policies in this area defines how the ibrary intends to comply with certain legal requirements or define financial best practices. Recommended policies include the following:

INVESTMENT POLICY

As 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 responsible for making investment decisions?
3. A listing of authorized investments. The authorized investments must comply with Public Act 20 of 1943, however, 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) addresses these risks that they identify as credit risk, interest rate risk, and foreign currency risk in GASB Statement No. 40 – *Deposit and Investment Risk Disclosures*-an amendment of GASB Statement No. 3. Libraries should include in the investment policy the type of risks they are exposed to and how the risks will be addressed.

CAPITAL ASSET POLICY

Each library should have a policy indicating the dollar threshold when an item that has a useful life of more than a year is considered a capital asset as well as the period of time that each type of capital asset is depreciated over. Purchased capital assets are to be recorded at historical cost while donated capital assets are recorded at the estimated fair market value of the asset.

SECTION 4
RESOURCES

GASB Pronouncements (Statements)
www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391

Michigan Legislature Public Act Search Tool
www.legislature.mi.gov/(S(3etqhe2ggmojjypexck4oby4))/mileg.aspx?page=MclPASearch

Michigan Compiled Laws (MCL) Search Tool
www.legislature.mi.gov/(S(3etqhe2ggmojjypexck4oby4))/mileg.aspx?page=MCLBasicSearch

CHAPTER 3 – LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with an understanding of common liabilities and deferred inflows of resources libraries may have, as well as related policies and requirements.

Section 1 – Liabilities
Section 2 – Deferred Inflows of Resources
Section 3 – Pension and Other Postemployment Benefits
Section 4 – Related Policies and Requirements
Section 5 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should first read Chapter 1 – *Accounting for Libraries*, with particular emphasis on Section 3 *Basis of Accounting* and Section 7 – *Annual Financial Statements*.

SECTION 1
LIABILITIES

Liabilities are present obligations of resources that the government has little or no discretion to avoid. Generally these are amounts that are owed to vendors, other governments, other funds, employees, debt holders, or amounts received from others that have not yet been earned. An easy way to think about liabilities is if the library were to close on a given day, what would the library owe, and to whom. Liabilities are classified as current or non-current and are reported in both the statement of net position and the governmental funds balance sheet.

CURRENT LIABILITIES

Current liabilities are obligations that are due within one year of the library's fiscal year-end. Common current liabilities include:

- Accounts payable: Goods and services purchased by the library whereby the library has taken ownership or received the service but has not paid for the goods or services. For example if a June 30 year-end library received repair services on June 15 but does not pay for the services until July 15. The amount owed for the repair services would be recorded as accounts payable as of June 15 (and on the June 30 financial statements) because that is when the library "incurred" the expense.

- Accrued payroll: Payments owed to employees for work performed, but not yet paid. 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 in July. The employer's portion of FICA, unemployment taxes, worker compensation insurance, and other benefits pertaining to those accrued wages should also be included as accrued payroll.

- Unearned revenue: Payments received by the library for goods or services that the library has not yet provided. For example, if the library held an event that required tickets to be purchased ahead of time, the money received from patrons would be "unearned" until the library held the event, thus providing the service.

- **Due to other governmental units:** Amounts payable to other governments for goods or services 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: Transactions that occur between different funds of a library when one fund benefits from an item that another fund paid for, or when a fund receives services from another fund. These amounts must be repaid to the other funds. Correspondingly, the paying or servicing fund must record the same amount in a "due from other funds" account. All due to other funds (liabilities) and due from other funds (assets) accounts across all funds of the library must equal zero.

- **Current portion of** long-term debt: The portion of long-term debt that is due within one year. This amount is presented only in the government-wide financial statements. See discussion below regarding long-term debt under "Non-Current Liabilities."

- **Compensated absences:** The amount of accrued vacation, sick, or comp-time leave that is estimated to be paid out within the next year. This amount is presented only in the government-wide financial statements unless it is due and payable to a retiring employee or employees shortly after year-end in which case it would be recorded as a liability in the applicable fund. See discussion below regarding compensated absences under "Non-Current Liabilities."

- **Accrued interest payable:** Interest expense that has been incurred on long-term debt for the current year, but not paid yet; and is presented only in the government-wide financial statements.

NON-CURRENT LIABILITIES

Non-current liabilities are obligations that are not due to be settled within one year and are presented only on the government-wide financial statements (full accrual basis), not the fund financial statements (modified accrual basis). Common non-current liabilities include:

- Long-term debt: Obligations of the library that have a maturity greater than 12 months. Portions that are due within 12 months are classified as current liabilities. Long-term debt of a library may consist of items such as leases, bonds, anticipation notes, installment purchase contracts, bank notes, as well as many other forms of borrowing.

- **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 if an employee with a large balance will be retiring in the upcoming year.

- Net pension liability: Obligations of the library for retirement benefits to employees using a defined benefit plan. The net pension liability is equal to the total pension liability less any amounts that have been set aside to fund the benefits. The net pension liability is generally calculated by an actuary, unless an alternative calculation is performed by the library. See further discussion in Section 3.

- Net OPEB liability: Obligations of the library for post-employment benefits other than pensions (other post-employment benefits or OPEB). Most often these other post-employment benefits are healthcare related. The net OPEB liability is equal to the total OPEB liability less any amounts that have been set aside to fund the benefits. The net OPEB liability is generally calculated by an actuary, unless an alternative calculation is performed by the library. See further discussion in Section 3.

SECTION 2
DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources are acquisitions of net assets by the government in one period that are applicable to a future reporting period and includes transactions that do not meet the definition of a liability. Deferred inflows of resources are reported in a separate section following liabilities in the statement of financial position as well as the governmental fund balance sheet. Some common examples of deferred inflows of resources are: deferred amounts relating to pension and OPEB plans, taxes levied for a subsequent period, and unavailable revenue. Taxes levied for a subsequent period relates to a situation where a library levies its operating taxes before year end, but those funds are budgeted to be used in the following calendar or fiscal year. The most common application of this concept would be for a library with a calendar year fiscal reporting period that levies its operating taxes as of December 1, for use in the upcoming calendar year. Unavailable revenue relates to amounts that have been earned by the library, but the funds are not received during the designated period of availability. Most governmental units utilize a 60-day period of availability for this purpose.

SECTION 3
PENSION AND OTHER POSTEMPLOYMENT BENEFITS

DEFINED BENEFIT PLANS

Many libraries provide pension and other post-employment benefits (OPEB) to their employees and retirees through their participation in defined-benefit pension and OPEB plans. The obligations to participate in these types of plans can be either through union contracts or discretionary. Pension and OPEB plans can take several forms. They can be directly provided by the library either through a trust or on a pay-as-you-go basis (OPEB only, not pension), participation in an arrangement sponsored through a larger (related) government, or with the Municipal Employees Retirement System (MERS). Some district libraries that were spun off from school districts also participate in the Michigan Public School Employees Retirement System (MPSERS).

When a library offers these types of benefits, there is a need to obtain periodic actuarial valuations in order to properly manage the plans as well as to provide financial statement disclosure information. GASB Statements 68 (Pension) and 75 (OPEB) provide the relevant financial reporting requirements for the government-wide financial statements – the fund-level statements are not affected. GASB 68 and 75 are very closely related statements, with many of the relevant requirements being the same for both. There are also additional annual reporting requirements (Form 5572) in Michigan imposed by Public Act 202 of 2017.

Actuarial valuations are estimates of the ultimate pension/OPEB liability and annual funding requirements prepared based on numerous assumptions pertaining to your plan as well as participant census data provided by the library. The State of Michigan has uniform assumptions that are required to be used for financial statement and Form 5572 reporting purposes, but there is also some latitude that the library has with regard to setting actuarial assumptions for internal purposes that are more applicable to the specific benefits being provided. For smaller libraries and plans, there is an alternative measurement calculation that can be used instead of an actuarial valuation. Actuaries and auditors can be good resources in this area.

Implementation of GASB Statements 68 and 75 very likely required libraries to recognize a net pension and/or net OPEB liability on the Statement of Net Position, to the extent that dedicated funding levels were less than 100% of the actuarially-determined liability. If funding levels are over 100% of the total pension or OPEB liability, the library would recognize an asset for the surplus – however this is not a common occurrence. The liability recognized for pension/OPEB is calculated by determining the "total" liability (from the actuarial report or alternative calculation) and subtracting from that what dedicated assets are available to fund the obligation going forward to arrive at the net amount recognized.

Net Pension and OPEB liabilities are most likely measured, or determined, as of the library's fiscal or calendar year-end, but there are many plans that have different measurement dates other than the fiscal or calendar year-end. For example, a June 30 fiscal year-end library may have a pension or OPEB plan that is measured as of December 31. This is permissible per GASB 68 and 75 as long as the measurement date is within one year of the fiscal or calendar year used for financial reporting purposes.

Net pension and OPEB liabilities also very likely have deferred amounts associated with them from several different sources such as:

- Contributions after the measurement date, if different from fiscal or calendar year-end
- Excess or deficiency of actual investment earnings from anticipated
- Changes in assumptions
- Differences in actual experience from anticipated

These deferred amounts are calculated each year (or received from the actuary) and are amortized into future pension or OPEB expense for the annual financial statements. Contributions after the measurement date reduce pension/OPEB expense in the current period. Excess or deficient investment earnings (actual earnings or loss compared to the assumed rate of return) are amortized over five (5) years. Deferred amounts related to changes in assumptions or differences in experience are amortized over the average remaining service life of active employees. Independent auditors often assist clients with the layering and calculation of these deferred amounts, but libraries should review these calculations carefully as they are ultimately the responsibility of management and not the auditors. Libraries should also ensure that they have documentation of these calculations on hand so they can fully support all amounts presented in the financial statements.

Funding arrangements for these benefits are varied, depending on what type of plan is in place. Some libraries have dedicated trust funds that are used to fund benefits. Trust funds must be irrevocable trusts, dedicated to providing pension/OPEB benefits, and protected from the government's creditors. Pay-as-you-go plans are common for OPEB benefits, though they are not allowed in Michigan for pensions. Pay-as-you-go plans only fund current benefits and do not set aside resources as the benefits are earned by employees through current service. With the funding and reporting requirements of Public Act 202 of 2017, true pay-as-you-go plans can be expected to decrease in numbers in the future. MERS also assists many governments with their pension and OPEB plans through traditional pension systems and custodial services such as the Retiree Health Benefit Funding Vehicle and the Investment Services Program.

DEFINED CONTRIBUTION PLANS

In recent years, the sustainability of defined benefit pension and OPEB plans has come into question, causing libraries and other governmental units to provide benefits using defined contribution plans for their employees and retirees. Defined contribution plans offer the employer with cost certainty in the near term with respect to required funding levels and help to avoid the legacy costs associated with many defined benefit plans. For the employee, these plans can be rolled over from one employer's plan to another, offering portability and flexibility to provide benefits over the long term.

Defined contribution pension plans are setup as Internal Revenue Code (IRC) section 401(a), 401(k), 403(b), or 257 deferred compensation plans. Employees can often contribute to their own retirement through salary deferrals and the employer will generally match these contributions at some level. Employer contributions are often subject to vesting requirements, so that employees must work for a pre-defined period of time before the employer contributions become theirs to keep in the case of termination or retirement.

Defined contribution OPEB plans are becoming more popular, especially with the pre-funding requirements of current service cost required by Public Act 202 of 2017. These plans involve setting aside amounts for individual employees in much the same way as a defined contribution pension plan. Employees may or may not be allowed to contribute to the plan. The benefits are usually subject to similar vesting requirements as the pensions and can be rolled over as employees change jobs.

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 recommended policies and requirements include the following:

LONG-TERM DEBT POLICY

There are different limitations and requirements placed on the library depending on the type of library, as noted:

- District libraries –
  - Governed by Public Act 265 of 1988, MCL 397.281 et. seq.
  - General obligation unlimited tax bonds are not allowed unless approved by the electors of the library by a majority vote
  - Bonds, loans, notes are limited to 5% of the state equalized valuation of the library's taxable property
- City/township/village libraries – Governed by Public Act 164 of 1877, MCL 397.201 et. seq.
  - Township libraries are subject to same requirements as townships
- Township/village libraries –
  - Governed by Public Act 5 of 1917, MCL 397.321 et. seq.
  - Bonds must be approved by a majority of the electors, subject to the Revised Municipal Finance Act (Public Act 34 of 2001, MCL 141.2101 et. seq.)
  - 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 six 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.

The library should have a policy describing its debt management activities and should address the scope and purpose of allowed borrowing (overall objective), the intended use of debt (when appropriate and for what purpose), types of debt, debt limitations, and the debt structure and repayment terms. The purpose of the policy is to articulate the library's goals with respect to debt, enhance the board's ability to make decisions, and demonstrate the library's fiscal prudence and responsibility to its patrons, taxpayers, and potential lenders. Debt policies should also address federal, state, and local regulations.

COMPENSATED ABSENCES POLICY

Each library should have a policy describing its compensated absences (also known as paid time off or PTO) accrual methods and procedures. This includes identifying how this time is earned, carried over from year to year, how it can be used, and if there is a payout upon leaving or retiring. Depending on how the library is formed, the county, city, township, etc., may determine this policy for the library.

SECTION 5
RESOURCES

Governmental Accounting Standards Board (GASB) – Standards and Pronouncements
www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176160042391

Government Finance Officers Association (GFOA) – Core Elements of a Funding Policy
www.gfoa.org/materials/core-elements-of-a-funding-policy

Government Finance Officers Association (GFOA) – Debt Management Policy
https://www.gfoa.org/materials/debt-management-policy

Michigan Legislature Public Act Search Tool
www.legislature.mi.gov/(S(3etqhe2ggmojjypexck4oby4))/mileg.aspx?page=MclPASearch

Michigan Compiled Laws (MCL) Search Tool
www.legislature.mi.gov/(S(3etqhe2ggmojjypexck4oby4))/mileg.aspx?page=MCLBasicSearch

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 – Fund Balance Policy
Section 4 – Special Considerations
Section 5 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of the manual, the user should first read Chapter 1 – *Accounting for Libraries*, with particular emphasis on Section 4 – *Fund Accounting*, Chapter 2 – *Assets and Deferred Outflows of Resources*, and Chapter 3 – *Liabilities and Deferred Inflows of Resources*.

SECTION 1
INTRODUCTION TO FUND BALANCE/NET POSITION

DEFINITIONS

FUND BALANCE

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

NET POSITION

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 as well as any proprietary and fiduciary funds. These statements utilize the full accrual basis of accounting. Net position measures the extent to which the government's taxpayers have paid the cost of services provided to date.

CATEGORIES

FUND BALANCE

Fund balance is classified in five categories depending on the constraints imposed upon the use of the resources (in order of most restrictive to least restrictive):

- **Non-spendable** – Certain assets are not available in a spendable form, such as inventory, prepaid expenses, and long-term receivables which are not expected to be converted to cash in the near future. It also includes funds that are legally or contractually required to remain intact such as the corpus of a donation, trust, or endowment.
- **Restricted** – Amounts that are required by external parties such as by creditors, grantors, contributors, or laws and regulations to be used for a specific purpose.
- **Committed** – Amounts for a specific purpose and imposed by a *formal action of the library's highest level of decision-making authority* (for example, the board). Committed amounts cannot be used for other purposes unless the same formal action removes or changes the purpose.

- **Assigned** – Amounts intended for a specific purpose but does not meet the criteria of restricted or committed balances. All positive remaining fund balances of governmental funds, other than the general fund, are reported here as well. The library should adopt a policy indicating who is authorized to assign amounts for specific purposes, otherwise this authority remains with the governing body.
- **Unassigned** – The remaining fund balance of the general fund, and negative remaining fund balances of all other governmental funds, after subtracting non-spendable, restricted, committed, and assigned amounts.

The last three categories are termed as *unrestricted fund balances* because the only constraint on spending is imposed by the library itself. This term of unrestricted fund balance is only used in determining fund balance calculations, not for reporting purposes.

NET POSITION

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

- **Net investment in capital assets** – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to those assets. The portion of debt attributable to unspent debt proceeds and any long-term obligations not related to capital acquisitions are not included in this calculation.

- **Restricted** – Restrictions on net position generally refer to constraints placed on the library 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 to the financial statements.

- **Unrestricted** – Unrestricted net position is the remaining amount that does not meet the definition of the other two categories. Unrestricted net position can be positive or negative.

SECTION 2
DETERMINING APPROPRIATE LEVELS OF FUND BALANCE

Adequate levels of fund balance are essential to ensure both current and future financial needs are met, including the mitigation of unexpected revenue shortfalls and unanticipated expenditures. The focus of fund balance is typically on the general fund because this is where operating activities are recorded. However, it is up to the discretion of the library to determine appropriate balance levels for other funds as well.

The appropriate level of fund balance depends on many factors and circumstances for a particular library, and there is no one correct amount for all libraries. The library's governing body and management team should determine the appropriate minimum and maximum amount each year. See Chapter 6 – *Budgeting for further discussion*.

Each library should consider its individual situation and circumstances when evaluating the appropriate level 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 its fiscal philosophy and future plans, needs, or situation, such as:

- Planned capital asset purchases
- Payment of compensated absences (vacation and sick time due to employees)
- Legacy costs such as Net Pension or OPEB liabilities

- 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 and timing of the tax levy
- Expectations about future economic conditions and governmental revenue sources, such as state shared revenue

SECTION 3
FUND BALANCE POLICY

Since the release of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, many governments have developed and adopted policies that communicate what management and those charged with governance believe to be the appropriate levels and a framework for use and maintenance of fund balance reserves. Formally adopted fund balance policies help to define and communicate how much fund balance should be maintained in specific funds, use and replenishment of funds, authority to make changes, reporting requirements, and priority of use.

The fund balance policy should begin with a statement of scope and purpose. The General Fund, as the primary operating fund of the library, will be included but the policy should also define which other funds are covered and which are exempted. A purpose statement frames the policy and lays out what the governing body believes to be the methodology for sound financial management practices as it applies to fund balance.

Fund balance definitions are readily available from a variety of sources, but a fund balance policy will generally contain either a glossary of terms as an attachment or include those definitions in the body of the policy. The policy should define what fund balance is, the various components of fund balance, and any budgetary terms being used.

Appropriate levels of fund balance reserves are the focal point of most fund balance policies. Each library will need to determine what that level is for each fund included in the policy and how it is defined. Considerations will include contingencies, credit standing, risk tolerances, cash flow, and transparency. Fund balance levels are generally expressed as a percentage (or range of percentages) of annual operating expenditures, total expenditures (including capital outlay, debt service, and other financing uses), or as a percent of revenues and this may vary from fund to fund in the policy. The Government Finance Officers Association (GFOA) recommends that general-purpose governments maintain a minimum level of unrestricted fund balance in the General Fund of at least two months operating revenues or expenditures. Maximum fund balance levels are more a matter of discretion and depend heavily on what the governing body's future plans and economic expectations are.

The policy will contain guidance on when, how, and if reserves can be used and how they are to be replenished if a given fund falls below the defined target range. Reserves could be used for capital projects, as a "rainy day" fund, or to invest in new or expanded programs. Replenishment of the reserves would be discussed in terms of where the funds are to come from (whether that is through excess of revenues over expenditures or one-time revenue sources) and the time frame anticipated for this to take place.

As discussed above, governmental funds report fund balances categorized per GASB 54 as non-spendable, restricted, committed, assigned, and unassigned. Non-spendable and restricted amounts are generally not considered to be part of the desired levels of reserves discussed above, which is generally defined as the total of committed, assigned and unassigned amounts in a fund. Committed funds are established, modified, or rescinded by formal action of the highest level of decision-making authority such as the library board. The fund balance policy should define what that formal action is. The authority to assign fund balance for specific purposes is reserved to the governing body unless that is delegated, which can be done in the fund balance policy. This authority can be delegated to the library director or other person/position as desired.

GASB 54 requires governments to disclose in the annual financial statements what their policy is as to the order of use that would be applied to restricted or unrestricted (committed, assigned, unassigned) funds. The fund balance policy would include a statement on when restricted or unrestricted funds would be used as well as the order in which unrestricted amounts are reduced when expenditures are incurred.

See an example fund balance policy at Appendix 3.

SECTION 4
SPECIAL CONSIDERATIONS

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 that they are intended to be used in, 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 use should be classified as a receivable and deferred inflows of resources.

FUND BALANCE DEFICITS

The Glenn Steil State Revenue Sharing Act of 1971 (1971 PA 140) requires libraries to formulate and file a deficit elimination plan in the event any governmental fund has a deficit fund balance. Michigan Department of Treasury Numbered Letter 2016-1 - "Deficit Elimination Plans" provides further guidance and clarifies when a deficit elimination plan is required and how to determine the amount of deficit to be eliminated. If required, the deficit elimination plan and certified resolutions are uploaded online at www.michigan.gov/treasury/local/online-filing.

SECTION 5
RESOURCES

Governmental Accounting Standards Board (GASB) Statement No.34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
https://gasb.org/page/PageContent?pageId=/standards-guidance/pronouncements/summary--statement-no-34.html

Governmental Accounting Standards Board (GASB) Statement No.54 – Fund Balance Reporting and Governmental Fund Type Definitions
https://www.gasb.org/page/PageContent?pageId=/standards-guidance/pronouncements/summary--statement-no-54.html

Government Finance Officers Association – Fund Balance Guidelines for the General Fund
https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund

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
Section 3 – Other Financing Sources and Uses
Section 4 – Resources

LEARNING PREREQUISITES

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

Revenues are required to be classified by major revenue source (type). The major revenue source classifications are taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous. Not every library will have revenue in every category. Following are highlights of the revenue categories that are common in 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.

Property Tax Revenue = Taxable Value X Millage Rate

The taxable value of a property is based on the assessed value of each property. The assessed valuation is set by, and can be obtained from, the local assessor and is roughly 50% of the fair market value of the property, or the amount the owner would expect to receive if the property were sold. However, this value is subject to review as every property owner has the right to challenge increases in this assessment. More information can be found on the Michigan Department of Treasury's website at www.michigan.gov/taxes/.

Real property owned by individuals and businesses are generally subject to taxation. However, property owned by public entities (federal, state, and local units of government), religious, and not-for-profit organizations are exempt. Mobile homes that reside in trailer parks are exempt since they constitute personal property, but rather, a "trailer park fee" of three dollars per month is paid 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.

Local governments have maximum operating millage rates that can be levied without voter approval. The maximum rate is set by either charter or state law depending on the type of government. 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 and 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. See MCL 397.183 for additional restrictions and authorizations that apply.

Additionally, 50 voters of a city may petition for a tax to be levied of up to 2 mills to establish a free public library. Upon majority of taxpayer approval during the voting process, a free public library will be formed. See MCL 397.210a for further discussion.

A school district public library may have an established tax levy in accordance with Public Act 451 of 1976, MCL 380.1451. This section permits millages that existed as of 1993 to be levied until they expired. After 1993 no new millages could be proposed. School public libraries that do not have an established millage prior to 1993, or that the millage has expired, receive funding from the school system they are affiliated with.

INTERGOVERNMENTAL REVENUE

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

Federal government – Grants that are received from the federal government can come direct, or through another granting agency such as the State or a municipality. These other granting agencies that pass along federal grants are called pass-through agencies. Grants that are considered federal, regardless of who they are coming from, are subject to the Office of Management and Budget (OMB) Uniform Guidance. OMB's Uniform Guidance has strict requirements that grantees must follow. See further discussion of federal grant requirements in Chapter 9 – *Grants and Federal Audit Requirements.*

State of Michigan - Public Act 89 of 1977, MCL 397.551 et. seq., State Aid to Public Libraries Act, provides state aid to libraries. Public library state aid is administered by the Library of Michigan. The Library of Michigan, which also sets the minimum standards and requirements to be met to receive the state aid, as well as how the aid is to be used. **Actual state aid received may vary as it is dependent upon appropriations.**

- Cooperative Libraries (MCL 397.563)
  - 50 cents per capita for their served population
- Public Libraries (MCL 397.566)
  - 50 cents per capita for their served population
- Public Libraries belonging to Cooperative Libraries
  - $10 per square mile if less than 75 people per square mile
  - Additional 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

Additional information about the State Aid grant requirements can be found on the Library of Michigan's website.

Local municipalities – Under Michigan Constitution, Article VIII, Section 9, revenue from penal fines are to be used to support public libraries. Revenue from penal fines are collected by county treasurers and distributed to local libraries by August 1 of each year. Penal fines are governed by Public Act 59 of 1964, MCL 97.31 et. seq. A penal fine is assessed on certain criminal infractions, civil infractions, and some local ordinance violations. For a list of Frequently Asked Questions about penal fines please visit the Library of Michigan's website.

CHARGES FOR SERVICES

Charges for services consist of fees for the use of library services and materials. This includes copy 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 FORFEITURES

Late fees and reimbursement for lost library materials are generally recorded in this category of revenue.

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.

DONATIONS

Cash and non-cash donations received from donors are recorded as revenue in this identified category.

OTHER

Miscellaneous revenue that does not fit into a classification listed above is recorded here. This category should be used infrequently.

SECTION 2
EXPENDITURES

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

RECREATION AND CULTURAL

Most expenditures for a library will be classified and reported 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, and fringe benefits
- **Supplies** – office supplies, operating supplies, maintenance supplies, and repair supplies
- **Other Services and Charges** – professional and contractual services, communications, transportation, and printing and publishing

CAPITAL OUTLAY

Capital Outlay expenditures result from the acquisition of, or addition to, capital assets. The amounts in these accounts should agree with the capitalization policy of the library and often equal the additions to the general capital assets records.

DEBT SERVICE

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

SECTION 3
OTHER FINANCING SOURCES AND USES

In addition to Revenues and Expenditures, governmental fund-level financial statements may also contain Other Financing Sources and/or Other Financing Uses. These additional categories of inflows and outflows are intended to separate certain key information from the Revenues and/or Expenditures being reported by the Library. Other Financing Sources and Other Financing Uses are closely related to Revenues and Expenditures, respectively, but are only used to record certain types of activity required by authoritative financial reporting standards. Other Financing Sources are increased with a credit and decreased with a debit. Other Financing Sources are the opposite – increased with a debit and decreased with a credit.

Some examples of Other Financing Sources include:

- Issuance of long-term debt (face amount and premium, if applicable)
- Inception of a capital lease
- Sales of capital assets
- Insurance recoveries
- Transfers to other funds

Some examples of Other Financing Uses are:

- Original issue discount on debt
- Payments to advance refunding escrow agent
- Transfers to other funds

When recording accounting transactions that involve Other Financing Sources or Other Financing Uses, the offsetting debit or credit amount will be cash if applicable. If cash is not involved in the transaction, such as when entering into a capital lease or certain book-entry-only debt refundings, the offset to the Other Financing Source will be an expenditure, asset, or Other Financing Uses account and the offset to the Other Financing Uses will be an Other Financing Sources or liability account generally (usually not a revenue).

SECTION 4
RESOURCES

Library of Michigan
www.michigan.gov/libraryofmichigan/

State of Michigan Department of Treasury – Property Taxes
www.michigan.gov/taxes/

State of Michigan Penal Fines and Public Libraries FAQs
https://www.michigan.gov/-/media/Project/Websites/libraryofmichigan/For-Libraries/Administration/State-Aid-Penal-Fines-PPT/lm_2010_PenalFinesandPublicLibrariesfinal.pdf

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 – Budget Process
Section 3 – Level of Budgetary Control
Section 4 – Budget Requirements
Section 5 – Budget Timeline
Section 6 – Budgetary Basis
Section 7 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of the manual, the user should first read Chapter 1 – *Accounting for Libraries*, with particular emphasis on Section 3 – *Basis of Accounting* and Section 7 – *Annual Financial Statements.*

SECTION 1
BUDGET CONCEPTS

The budget represents an appropriation of funds which is legally required for governmental expenditures. Management uses the budget as a tool to monitor revenues and expenditures during the year in order to maintain an appropriate level of fund balance and enables management to meet the goals and expectations of the governing body. A budget is also used to assure taxpayers that the directors and management are being fiscally prudent with taxpayer dollars.

Under Michigan Public Act 2 of 1968, MCL 141.421 et. seq., the Uniform Budgeting and Accounting Act, a resolution adopting a formal budget must be in place for each fiscal year before a governmental unit may expend funds in the General Fund or Special Revenue Funds. In addition to meeting state requirements, a budget also ensures that libraries establish a plan of resource allocation to meet the goals and service expectations of the library. Budgets are not required for capital project and debt service funds, however, they can serve as useful planning tools for these funds as well, and it is a recommended practice to formally adopt budgets for all funds.

SECTION 2
BUDGET PROCESS

The annual budgetary process involves four generic phases: preparation, adoption, execution, and amendment.

PREPARATION

The library director, or other designee, analyzes past financial data for useful trends. The analytics are used to determine the approximate amount of revenues that the library expects to receive and the expenditures it expects to expend for operations and capital needs. Other items to be considered for inclusion in the budget are anticipated projects or other known and anticipated factors. For example, management received notice that health insurance rates will increase 10%. This increase is anticipated and will need to be recognized in the budget documents prepared by management. The following procedures are recommended during the preparation phase for timely and complete information to be included in the budget:

- Review and update the long-term strategic plan
- Determine short-term goals and objectives
- Estimate revenue needs and submit tax rate request
- Update personnel schedule including added or lost positions
- Update personnel pay rate schedule including any known changes in fringe benefit amounts
- Prepare or update the long-term capital spending plan

The prepared budget is then presented to the governing body for review and adoption.

ADOPTION

The prepared budget is presented to the governing body in a public meeting as required by Michigan Public Act 267 of 1976, MCL 15.261 et. seq., the Open Meetings Act. The governing body reviews the presented budget, requests modifications as deemed necessary, and gives final approval. In many cases, the governing body discusses the budget during a special meeting before officially approving the budget in a regular meeting of the body. Final approval of the budget is by a formal resolution of the governing board, whereby the original budget is adopted.

EXECUTION

Once the original budget is adopted by formal resolution of the governing board, the budget is entered into the accounting system's general ledger using the same account numbers as the actual accounting of transactions. Basically, the budget is another column in the general ledger. This provides a snap-shot view, per account or class of transaction, at any given time in the accounting system. Management should compare actual expenditures to budgeted expenditures routinely in order to monitor current levels of spending and to help make decisions about near-future spending.

AMENDMENTS

Management should compare actual revenue and expenditures to budgeted amounts at least monthly to determine if any budget amendments are necessary. Actual expenditures should never exceed budgeted expenditures. If expenditures need to be made that are not budgeted for, an amendment to the budget is necessary. This is done by a formal resolution of the governing body, similar to the adoption process. If actual expenditures exceed budgeted expenditures in the General or Special Revenue Funds, the library is considered to be out of budgetary compliance.

SECTION 3
LEVEL OF BUDGETARY CONTROL

The level of budgetary control is how expenditure accounts are grouped together for compliance. The governing body appropriates funds at a level of budgetary control they define. Different funds can, and often do, have different levels of budgetary control. Common levels of budgetary control are by:

- Line item – a line item budget controls a library's budget by each general ledger account (not a recommended practice).
- Activity – an office or department to which specific expenditures are to be allocated (for example, finance department, circulation, etc.).
- Fund – a total budget for an individual fund. Budgeting by fund 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 governing body with an effective tool to help operate and manage the library's finances.

SECTION 4
BUDGET REQUIREMENTS

To comply with the Uniform Budgeting and Accounting Act, certain requirements must be met. The Michigan Department of Treasury's Uniform Budget Manual for Local Units of Government in Michigan and other additional information regarding the Budget Act may be obtained from the Michigan Department of Treasury's website at https://www.michigan.gov/treasury. The following budget requirements must be followed to comply with the Budget Act:

- Budget is adopted for all General and Special Revenue Funds, at a minimum (MCL 141.436)
- Public hearing is held on the budget
- The following information is included in the budget document for each of 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
- A negative fund balance is not budgeted (beginning fund balance, plus budgeted revenues, less budgeted expenditures, does not equal a negative amount) (MCL 141.435 and 436)
- All expenditures are authorized in the budget
- The expenditures are equal to or less than amounts appropriated (MCL 141.437 and 438)
- The budget has been amended to allow expenditures more than the original appropriation

SECTION 5
BUDGET TIMELINE

Each library needs to determine the timeline that works best for its situation. A small library may not need as much time as a larger library due to factors such as multiple levels of management, quantity of capital project needs, or number of personnel matters. The following is an example of a budget timeline:

TIMELINE	PROCESS
7 months prior to year-end	Library director (or designee) begins process - set management team's workshop sessions and submits data request to management team
6 months prior to year-end	Budget requests are received from departments and analyzed by management team and an initial preliminary budget is formed
5 months prior to year-end	Preliminary budget is prepared by management team and presented to library director
4 months prior to year-end	Budget committee or governing body meets in study session to review preliminary budget and make recommended changes, if necessary
2 months prior to year-end	Public hearing and final changes proposed
Prior to beginning of fiscal year	Governing body adopts budget by resolution (MCL 141.412)

SECTION 6
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 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 the budget may not recognize the revenue until amounts are 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 financial statements.

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

A sample budget can be found in Appendix 4.

SECTION 7
RESOURCES

The Open Meetings Act
www.legislature.mi.gov/doc.aspx?mcl-act-267-of-1976

The Uniform Budgeting and Accounting Act
www.legislature.mi.gov/doc.aspx?mcl-Act-2-of-1968

Uniform Budget Manual for Local Units of Government
https://www.michigan.gov/treasury/-/media/Project/Websites/treasury/Budget/UniformBudgetManual.pdf

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
Section 4 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should first read Chapter 1 – *Accounting for Libraries*, with particular emphasis on Section 3 *Basis of Accounting*, Section 4 – *Fund Accounting*, and Section 7 – *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 to provide value to the readers.

SECTION 2
INTERNAL REPORTING

Internal reporting is summarized financial information that is used by management to make informed financial decisions. Financial reports for internal purposes can be created in any form that management or the board desires. Libraries should have formal, well-documented internal reporting processes and procedures. Internal reporting best practices often include:

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

See Appendix 1 for sample internal reports.

SECTION 3
EXTERNAL REPORTING

External reporting is summarized financial information that is required to be reported to outside parties such as the Michigan Department of Treasury, taxpayers, creditors, and perhaps the federal government. All governmental entities in Michigan are required to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP), as well as other specialized reports and forms that must be submitted annually.

FINANCIAL REPORTING IN ACCORDANCE WITH GAAP

The following are the required elements of a financial report that is prepared in accordance with GAAP:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are presented using the full accrual basis of accounting, similar to that of a business or not-for-profit organization. The government-wide financial statements are comprised of the following statements.

STATEMENT OF NET POSITION

All assets, liabilities, and deferred outflow/inflows are presented. Assets and liabilities that are long term in nature, such as capital assets and long-term debt, are presented in these statements. The statement includes governmental activities (governmental funds) and 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 and general 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, 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 classified as general revenue and are reported separate from the functions. General revenue includes all taxes, interest, and unrestricted state aid.

See Appendix 2 for an example.

FUND FINANCIAL STATEMENTS

The fund financial statements are presented using the modified accrual basis of accounting. Therefore, only current assets and liabilities are presented (no long-term asset/liabilities) and the library will only recognize revenues that are collected within a pre-defined availability period which is generally sixty (60) days after year-end. Major funds and the aggregate balances of nonmajor funds are presented in separate columns. Also, separate fund financial statements are presented for governmental fund and proprietary fund groupings.

Major funds include the general fund and all other funds that meet the criteria set forth by GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Additionally, a library may opt to present a specific fund as a major fund. All other funds not meeting the criteria, or identified by management, are considered nonmajor funds.

The fund financial statements are comprised of the following statements:

BALANCE SHEET

Current assets, current liabilities, and certain deferred outflow/inflows are presented.

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

This reconciliation describes all entries necessary to convert governmental account balances from the fund balance sheet (modified accrual basis of accounting) to the government-wide statement of net position (full accrual basis of accounting). Common reconciling items would be the addition of capital assets and long-term debt balances.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

This statement presents current year activities resulting from revenues, expenditures, and other financing sources and uses. Accounts that are for operating purposes of the library are accounted for in the revenues and expenditures section of this statement. The other financing sources and uses section of the statement groups accounts together that are non-operational in nature, such as proceeds from the sale of assets or transfers.

RECONCILIATION OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

This reconciliation describes all entries necessary to convert current year operating results of governmental funds from the modified accrual basis of accounting to full accrual basis of accounting. Examples of reconciling items would be amounts paid for acquiring capital assets and amounts paid for principal of long-term debt.

BUDGETARY COMPARISONS

Budgetary comparisons for the General Fund and major Special Revenue funds are generally presented as required supplementary information in the financial statements. The budgetary comparisons present both the original and final appropriated budgets for the reporting period as well as actual revenues, expenditures, and fund balances. Budgetary comparisons for other (non-major) funds can optionally be presented as other supplementary information in the financial statements. See Appendix 2 for examples.

NOTES TO THE FINANCIAL STATEMENTS

Notes to financial statements are additional information that 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 required note disclosures:

- Description of the accounting methods, policies, and choices underlying the amounts in the financial statements
- Additional details about, or explanations of, the amounts on the face of the financial statements

REQUIRED SUPPLEMENTARY INFORMATION (RSI)

The Governmental Accounting Standards Board (GASB) requires that certain information be presented to supplement the basic financial statements. Such information is considered by the GASB to be an essential part of financial reporting for placing basic financial statements in an appropriate operational, economic, or historical context.

BUDGETARY COMPARISON SCHEDULES

Budgetary comparison schedules are normally presented as part of RSI.

MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)

The MD&A is a narrative introduction, overview, and analysis of the financial statements that is prepared by management of the library. It explains the basic financial statements and provides comparative data analysis. This section gives the library's management an opportunity to explain changes in revenue or expenditures in terms that a general user can understand, and provides discussion regarding changes in economic factors, budget variances, and future plans and expectations.

See Appendix 2 for an example.

PENSION AND OPEB SCHEDULES

GASB Statements 68 and 75 require that certain information on Pension and OPEB arrangements, if applicable, be presented as Required Supplementary Information. These schedules generally include 10 years of history (built prospectively, no requirement to present information from before the applicable statements were issued) and inform the financial statement user about trends in the Pension and/or OPEB plans.

OTHER SUPPLEMENTARY INFORMATION (OSI)

OSI is other information presented with the financial statements, such as the required combining statements for the aggregation of nonmajor funds and other schedules that the library deems necessary.

EXTERNAL REPORTING REQUIREMENTS

AUDIT AND FINANCIAL REPORTING TO THE STATE

Michigan Public Act 2 of 1968, MCL 141.421 et. seq., as amended, requires that each governmental unit's chief administrative officer 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 six (6) months after the end of the fiscal year. See MCL 141.424. In addition, the Act also requires every library serving a population of 4,000 or more to have an annual audit, and those serving under 4,000 to have an audit at least every other year. See MCL 141.425. See Chapter 8 – *The Audit Process,* for more information regarding audits and the audit process.

PENSION AND OPEB REPORTING TO THE STATE

Public Act 202 of 2017, MCL 38.2801 et. seq, requires pension and retiree health care reports for retirement systems to be filed electronically, no later than six (6) months after year-end using Form 5572. For each retirement plan, the local unit of government must report each plan's funded ratio (assets/liabilities), the actuarially determined contribution (ADC), as well as the annual governmental fund revenues for the fiscal year. This information is used by Michigan Department of Treasury to determine if the pension and/or OPEB plans are in an underfunded status. The state treasurer has also established, as required by Public Act 202 of 2017, certain uniform assumptions which allow for comparison of pension and OPEB plans across the state. In the event these assumptions are different than the assumptions in the actuarial valuation used for funding purposes, two sets of funded ratios and contributions will be required to be reported to the Michigan Department of Treasury. The form used for reporting can be found at https://www.michigan.gov/treasury/local/CEFD/retirement. The completed form is sent to LocalRetirementReporting@michigan.gov.

FEDERAL EXPENDITURE REPORTING

Specific reporting to the federal government is required if a single audit is performed. A single audit is required if the library expends $750,000 or more in federal assistance. See Chapter 9 – *Grants and Federal Audit Requirements.*

OPTIONAL REPORTING

Many larger governments choose to issue an Annual Comprehensive Financial Report (ACFR). An ACFR is a financial statement that goes above and beyond the minimum financial reporting requirements of GAAP and provides additional information intended to promote transparency. The Government Finance Officers Association (GFOA) sets the standards governing the content of a ACFR, submitted to the Certificate of Achievement for Excellence in Financial Reporting Program (ACFR Program), which recognizes individual governments that have met the program's requirements. An ACFR must be audited by an independent auditor and contains three sections: introductory, financial, and statistical. The financial section includes the audited financial statements. There is no legal requirement to issue an ACFR in the State of Michigan.

SECTION 4
RESOURCES

GASB – Statement No. 34
https://gasb.org/page/PageContent?pageId=/standards-guidance/pronouncements/summary--statement-no-34.html

Michigan Department of Treasury – Bulletins for Audit Guidance
https://www.michigan.gov/treasury/local/CEFD/info/bulletins-manuals-and-forms

Michigan Department of Treasury – Uniform Reporting Format Bulletin
https://www.michigan.gov/-/media/Project/Websites/treasury/Reports/2002/2002_uniformreportingformatmanual.pdf

CHAPTER 8 – THE AUDIT PROCESS

OBJECTIVE/SUMMARY

Section 1 – Difference Between an Audit and Accounting
Section 2 – Audit Requirements
Section 3 – Types of Audits and Other Services
Section 4 – Types of Audit Opinions
Section 5 – Selection of Independent Auditor
Section 6 – Preparation for an Audit
Section 7 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should first read Chapter 1 – *Accounting for Libraries,* with particular emphasis on Section 7 – *Annual Financial Statements.*

SECTION 1
DIFFERENCE BETWEEN AN AUDIT AND ACCOUNTING

AUDIT

An audit is a set of procedures performed to express an opinion as to whether the financial statements are presented fairly and in conformity with generally accepted accounting principles. A common misconception of an audit is that it is performed to detect fraud, or to find any and all mistakes made by a bookkeeper. Audits are not designed to detect fraud, though the possibility is considered, and an element of materiality is used which means that scopes are higher than many may realize. Audits are conducted on a sample basis and do not encompass a 100% review of all transactions, but rather focus on detection of material misstatements of the financial statements.

Audits are performed in accordance with Generally Accepted Auditing Standards (GAAS) and involve performing procedures to obtain evidence about the amounts and disclosures in the financial statements. Audit evidence includes assessment of internal controls, evaluating appropriateness of accounting policies and estimates, as well as testing of balances and sampling of various transactions.

In addition to satisfying legal requirements, audits are also beneficial to a library because they help maintain the confidence of stakeholders relating to the integrity of the library's record keeping and financial reporting and add credibility to the fiscal prudency of the library. In addition, during the audit the library may obtain professional guidance in preparing financial statements and advice on developing and maintaining strong internal controls. Stakeholders include, but are not limited to, citizens, taxpayers, creditors, state and federal governments, and local officials.

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, as discussed in the first few chapters of this guide.

SECTION 2
AUDIT REQUIREMENTS

REQUIREMENT

Michigan Public Act 2 of 1968, MCL 141.421 et. seq., as amended, requires that each governmental unit serving a population of 4,000 or more have an annual audit. Libraries serving a population of under 4,000 must have an audit at least every other year, however, annual audits are strongly recommended. Refer specifically to MCL 141.425. Non-governmental libraries may be subject to audits as required by governing bylaws or other authoritative documents.

Libraries that receive federal funding may also require a single audit in accordance with the OMB's Uniform Guidance (2 CFR 200, subpart F). See Chapter 9 – *Grants and Federal Audit Requirements* for further discussion.

DISTRIBUTION

Audited financial statements for government libraries are considered public records and are to be distributed upon request. Other distributions include:

- Library board and/or audit committee - required
- State of Michigan Local Audit and Finance Division of the Department of Treasury - required
- The Library of Michigan – required if the library received an LSTA grant through the Library of Michigan and a single audit is performed
- Federal Audit Clearinghouse – required if a single audit is performed
- Posted on the library's website – optional, but recommended

SECTION 3
TYPES OF AUDITS AND OTHER SERVICES

FINANCIAL STATEMENT AUDIT

A financial statement audit provides reasonable assurance that the 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
- 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

SINGLE AUDIT

A single audit, per the Single Audit Act, is required when an entity expends $750,000 or more of federal awards in the reporting year. Single audits are performed under the Code of Federal Regulations (2 CFR 200), commonly referred to as the Uniform Guidance. More detailed discussion regarding single audits can be found in Chapter 9 – *Grants and Federal Audit Requirements.*

Components of a single audit include the following:

- Perform an audit of the financial statements and schedule of expenditures of federal awards (SEFA) in accordance with Government Auditing Standards (GAS) as prescribed in the "Yellow Book," issued by the Government Accountability Office.
- Determine whether the schedule of expenditures of federal awards is presented fairly in relation to the financial statements as a whole.
- For "major programs" (determined by the auditor 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.
- Express an opinion on whether the library has complied with grant agreement requirements.
- Express an opinion on compliance with the requirements of all major programs and report on the internal controls over those compliance requirements.

FRAUD EXAMINATION

An optional type of service that the library may want to have performed is a fraud examination. This is typically performed when fraud has occurred or has been suspected. A fraud examination is a specialized service and typically performed by either a Certified Public Accountant (CPA) or a Certified Fraud Examiner (CFE).

AGREED-UPON PROCEDURES

Another service that a library may want to have performed is an agreed-upon procedure (AUP). This is not an audit because an opinion is not provided by the auditor, but rather it is a procedure, or list of procedures, that the library requests to be examined. The procedures are performed and reported on by the engaged professional. Common AUPs that are performed are reviews of internal controls processes including cash collection points, purchasing procedures, disbursement procedures, or payroll testing.

SECTION 4
TYPES OF AUDIT OPINIONS

The result of the audit process is the opinion that is expressed by the auditor. There are four different opinions that can be communicated in the auditor's report based upon the audit evidence obtained:

- Unmodified
- Qualified
- Adverse
- Disclaimer

UNMODIFIED OPINION

An unmodified opinion is also known as a "clean" opinion, it is the best opinion that can be received, the highest level of assurance an auditor will give. An unmodified opinion means that the auditor's report was not modified such as the qualified, adverse, or disclaimer reports discussed below. An unmodified opinion denotes that 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).

QUALIFIED OPINION

A qualified opinion is expressed by the auditor when there is a matter such as an accounting method that did not follow GAAP or a limitation in the scope of the audit. The auditor's report will contain a paragraph that describes the reason for the qualification. The opinion states 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.

ADVERSE OPINION

An adverse opinion is the most unfavorable opinion a library can receive. This opinion is received when the financial statements are not in accordance with GAAP, or other prescribed and accepted accounting methods, and are misstated. A library that receives an adverse opinion will be required to correct the financial statements and have them re-audited.

DISCLAIMER OPINION

A disclaimer of opinion does not express an opinion on the financial statements. In other words, the auditor does not have an adequate basis for an opinion and does not give assurance whether the financial 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 INDEPENDENT AUDITOR

Important elements of the audit process are understanding the importance of hiring a quality auditor to perform your financial statement audit, evaluating auditor qualifications, and performing the proposal process and selection.

IDENTIFYING POTENTIAL AND QUALIFIED AUDITORS

Auditors of governmental entities, such as libraries, are very specialized and are required to follow additional governmental audit requirements and added training requirements. Governmental auditors go through a peer review process whereby the auditor is audited every three years. As part of the policy, it should be established that the peer review letter be obtained and that the auditor received a report grade of pass on their last peer review. Peer review results can be requested from the auditor or obtained on the AICPA's Peer Review Public File Search website.

CRITERIA FOR SELECTION

The library board should include in the audit policy how the selection process will occur. Prior to the start of the selection process, management or the governing board, should identify and develop preliminary criteria. Often a grading sheet is developed with each identified area having a range of scores that each selection participant can evaluate and compare potential auditors on. Auditor selection should be based on experience and professional development, quality, independence, licensing, and the willingness to serve the library.

Criteria for selecting an auditor should include the following:

- Experience and professional development
  - Firm and staff have experience auditing libraries and other governmental entities
  - Personal abilities of engagement staff (perceived ability to relate and work well with library staff)
  - Ability of engagement staff to access other resources a library may need (specialists, consultants, reference materials, etc.)

- Quality
  - The firm is committed to quality
  - Firm provides its latest Peer Review
  - Firm is a member of the AICPA's Governmental Audit Quality Center (GAQC) which requires a higher standard of audit quality in their policies and procedures
  - Obtain references and discuss auditor's work
- Independence
  - Auditor is independent in appearance and fact
  - Auditor is independent in accordance with GAS if performing a Yellow Book or single audit
- Licensing
  - Auditor or audit firm is licensed in the State of Michigan

REASSESSMENT OF AUDIT SERVICES

An audit policy may also include requirements to reassess audit services periodically. It is common for boards to require the library to request new audit service proposals every three to five years. It is also common for boards to allow management to determine its satisfaction with the current auditor on an annual basis. Either way, it is recommended that the audit policy prescribe the method of reassessment.

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 as set by the board. Many government and not-for-profit organizations use a request for proposal (RFP) process to obtain quotes.

RFPS SHOULD CONTAIN THE FOLLOWING

- Audit requirements
- Period covered
- Contact person at library
- Method for questions to be answered or information to be obtained
- Request qualifications of audit firm
- Request qualifications of staff that will be assigned to the engagement
- Request audit approach that will be used
- Request for references
- Timing of services
- Fees

See Appendix 5 for a sample of an audit RFP document.

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 requests
  - Auditor must control the process including mailing the confirmations
  - You can follow up with phone calls for nonresponses
- Prepare schedules requested by auditor
- Provide samples selected by the auditor
- Prepare financial statements, unless you are contracting with the independent auditor to do this

TIMING OF AUDIT AND ASSISTANCE

Meet or discuss with the 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
- Provide access to internet
- Prepare confirmation requests

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 to be the point of contact to pull samples, scan documents, and obtain additional documentation as requested

At the completion of the audit, meet and discuss with the auditors to obtain information regarding:

- Results of the audit
- Problem areas
- Journal entries
- Areas for improvement

SECTION 7
RESOURCES

State of Michigan Department of Treasury *Audit Manual for Local Units of Government in Michigan*
https://www.michigan.gov/-/media/Project/Websites/treasury/Delta2/E/Audit_Manual_for_LUG_in_Michigan_383593.pdf

Uniform Guidance 2 CFR 200
https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II

AICPA *Guide to Hiring a Quality Auditor*
https://www.aicpa.org/content/dam/aicpa/interestareas/privatecompaniespracticesection/qualityservicesdelivery/keepingup/downloadabledocuments/hiring-a-quality-auditor.pdf

AICPA Governmental Audit Quality Center (GAQC) Member Search
https://www.aicpa.org/interestareas/governmentalauditquality/membership/findamemberfirm.html

AICPA's Peer Review Public File Search
https://peerreview.aicpa.org/public_file_search.html

State of Michigan Licensing and Regulatory Affairs License Lookup
https://www.lara.michigan.gov/colaLicVerify/IName.jsp

Michigan Department of Treasury – Local Audit and Finance Document Search
https://treas-secure.state.mi.us/DocumentSearch

CHAPTER 9 – GRANTS AND FEDERAL AUDIT REQUIREMENTS

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide a general overview of grants and federal audit requirements relating to grants. A brief outline of the chapter follows:

Section 1 – Overview of Grants
Section 2 – Library of Michigan Grants
Section 3 – Federal Audit Requirements (Single Audit)
Section 4 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should first read Chapter 7 – *Financial Reporting.*

SECTION 1
OVERVIEW OF GRANTS

Grants are a means for the library to obtain revenue without levying additional taxes or charging extra fees. Generally, grants are non-repayable and are restricted for specific purposes. There are a wide variety of activities that a library can obtain a grant for, such as operations, capital improvements, and emergency recovery, to name a few.

SOURCES

Grants may come from several sources such as federal, state, or local governmental agencies, or from local non-profit or for-profit companies. Many grants originate at the federal level and "flow-thru" other governmental agencies and non-profit companies. It is important for a library to determine the original source of all grant funding it receives. This plays an important role in determining whether the library requires an audit of its federal grants. This is also known as a single audit, and will be discussed further in Section 3 of this chapter.

APPLY FOR A GRANT

Most grants require an application or proposal to be considered for a grant. Grant writers are specialists who are familiar with the types of grants available, are knowledgeable of grant resources, and experienced with the intricacies of grant applications. Grant writers are not necessary, nor mandatory, to apply for grants successfully. The federal government offers free tips and tools to help write successful grant applications or proposals at www.grants.gov.

ELIGIBILITY

To obtain a grant, a grantee must meet eligibility requirements for the specific grant. Each grant contains different eligibility requirements as deemed appropriate by the grantor. Grants are traditionally need based and may be competitive, meaning other entities are applying for the same pool of money. Examples of eligibility requirements that a library could face when applying for a grant are the population of area serviced, type of library, age of infrastructure, or extent of damage in the case of a natural disaster.

RESTRICTIONS

Grants, almost always, are restricted for specific purposes by the grantor. Grantees are required to follow the grant compliance requirements. A lack of compliance with grant restrictions may result in the library being required to repay any grant money received back to the grantor. In addition to purpose restrictions, grants may specify allowable and unallowable costs associated with it. For instance, a library may obtain a grant to install LED lighting with specific provisions as to what types of costs are allowed. The LED lightbulbs may be an allowable cost, while rental of equipment and staff expenses are not allowed per the grant agreement. Therefore, only the costs of the LED lightbulbs would be reimbursed by the grantor.

MATCHING

Funds received from grants are "free" money, however, many times there are matching requirements set forth by the grant agreement. This matching requirement is often a percentage of the total grant. For instance, a grant agreement may be written as a $100,000 total grant, with a matching requirement of 20%. The total amount of grant assistance would be $80,000 and the amount contributed by library funds would be $20,000. This grant may also be referred to as an 80/20 grant for a total of $100,000. Again, 80% comes from the grantor and 20% is to be paid with library funds.

Other times there may be unallowable costs that can't be avoided to fulfill the requirements of the grant. In the LED lights example given, there was a need to rent equipment and pay staff. These unavoidable costs are will not be reimbursed with grant funds.

Caution: Management needs to ensure that the library has sufficient cash flow to pay for the matching requirement or unavoidable costs. Remember: "free isn't always free."

REQUEST OF FUNDS

The type of form to be used, the timing of requests, and the allowed method to obtain grant funds are outlined by the grantor in the grant agreement.

There are two methods of obtaining the grant funds which are the advance method and the reimbursement method.

The advance method allows the grantee to request and obtain grant funds prior to incurring costs. The accounting for advanced funds is a debit to cash and a credit to unearned revenue liability. The funds received are not revenue until costs are incurred.

The reimbursement method is the most often used grant funding method. This method requires the library to incur costs first, then request reimbursement. Incurring costs simply means that the work or service was performed, it does not mean that the cost has been paid for. Sometimes, the grant agreement requires invoices of the costs to be presented with the request for reimbursement. If the grant is a federal grant, the invoice must be paid within three (3) days of receiving reimbursement. Accounting for the expected reimbursement would be a debit to accounts receivable and a credit to either revenue or deferred inflows of resources, depending on how delayed the reimbursement is. If the reimbursement is within 60 days, the credit is to revenue. If the reimbursement is after 60 days, the credit is to deferred inflows of resources.

SECTION 2
LIBRARY OF MICHIGAN GRANTS

The Library of Michigan offers a range of library grant programs within the state, depending on funding availability. Depending on the program, eligible applicants can include public libraries, academic libraries, school libraries and statewide library service organizations.

Funding for Library of Michigan grants is provided by the Institute of Museum and Library Services (IMLS) through the Museum and Library Services Act of 2018, a section of which is known as LSTA (Library Services & Technology Act).

For further information on Library of Michigan grants and LSTA funding, as well as other grant opportunities, go to www.michigan.gov/lsta, or contact the Library of Michigan staff at (517) 335-1516.

SECTION 3
FEDERAL AUDIT REQUIREMENTS (SINGLE AUDIT)

A library that expends more than $750,000 of federal funds during its fiscal year requires an audit of its federal programs, also known as a single audit. The Single Audit Act Amendments of 1996 (Single Audit Act) requires this single audit to be performed by an independent auditor, concurrently with the financial statement audit, hence the term "single" audit. Auditors who perform single audits are highly specialized in the area and require additional training. Federal agencies rely on the single audit as part of their administrative responsibilities for determining compliance with the requirements of the federal award.

The Single Audit Act gives the director of the Office of Management and Budget (OMB) the authority to establish guidelines and policies on administration and audits of federal awards. This authoritative set of rules and requirements for federal awards that the OMB established is Title 2 Code of Federal Regulation (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance). Following Uniform Guidance is mandatory for all governmental-type libraries who receive federal awards.

The first step in determining whether the library needs a single audit is to determine the basis of all grants or awards. Often a grant that comes through another governmental entity originates with the Federal government. Several key identifiers when reading the grant agreement is an Assistance Listing (AL) number or terminology stating that an audit in accordance with 2 CFR 200 must be conducted. If either of these items are in the agreement it is very likely that this is a federal award. If these items are not in the grant agreement, it is recommended that management contact the awarding agency and get confirmation that the award is, or is not, federal and maintain the documentation of such.

The second step in determining whether the library needs a single audit is to determine the amount of federal award dollars that have been expended (amounts that have been incurred but not yet paid). For example, if the library's year-end is June 30 and a million-dollar project was underway, but only 80% completed as of June 30. Whether the 80% has been paid for or not, this $800,000 would be considered expended and a single audit would be required.

A Schedule of Expenditures of Federal Awards (SEFA) is required to be completed by the library if it receives federal awards and a single audit is required. However, best practice is to maintain a SEFA during the year to keep track of grants and to ensure that a single audit is or is not required. An example of a SEFA can be found in Appendix 6.

The single audit is a rigorous audit of the federal award process and on each major federal program. Internal controls and compliance with grant requirements are tested as part of a single audit. If the auditor determines that the library had any significant deficiencies or material weaknesses in internal controls, or compliance requirement findings, the library must formulate a corrective action plan which addresses how the library will resolve the issue(s) found.

After the single audit is performed, a Data Collection Form must be submitted to the Federal Audit Clearinghouse within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period. The library is also required to submit a corrective action plan if one was required.

SECTION 4
RESOURCES

Federal Grants
https://www.grants.gov

Library of Michigan Grants
https://www.michigan.gov/lsta

2 CFR 200
https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200

Federal Audit Clearinghouse
https://facweb.census.gov/uploadpdf.aspx

CHAPTER 10 – 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. However, even the smallest of libraries can have excellent internal controls if some key checks and balances are implemented for various financial processes.***

Section 1 – Introduction to Internal Controls
Section 2 – Internal Control Objectives, Components, and Principles
Section 3 – Inherent Limitations of Internal Controls
Section 4 – Common Indicators of Potential Fraud or Embezzlement
Section 5 – Other Related Internal Control Policies
Section 6 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should first read Chapter 1 – *Accounting for Libraries*, with particular emphasis on Section 5 – *Types of Accounting Transactions.*

SECTION 1
INTRODUCTION TO INTERNAL CONTROLS

Internal controls are a set of processes and procedures, or checks and balances, that are put in place to help safeguard the assets of the library; achieve proper conduct of business; and ensure financial integrity. Strong internal controls will help keep the library in compliance with laws and regulations, promote efficiency, and will reduce the opportunity for fraud to occur. The board sets the standards and official policies for internal controls, but the ultimate responsibility for good working internal controls rests with management in the day-to-day operations of the library.

There are two main sources of internal control frameworks that governmental entities follow. These are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework and the U.S. Government Accountability Office (GAO) – Green Book. COSO is made up of a committee of accounting and finance organizations, one of which is the AICPA, and sets internal control standards that are generally accepted by the accounting profession. The Green Book sets internal control standards for the federal government. This guide will focus on the COSO Framework; however, the Green Book is a good resource as well.

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, COMPONENTS, AND PRINCIPLES

OBJECTIVES

The COSO Framework enables organizations to 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 effectively and efficiently. 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.

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 risks 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 how 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.

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.

PRINCIPLES

The COSO Framework sets out 17 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.

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 3
INHERENT LIMITATIONS OF INTERNAL CONTROLS

Inherent limitations on a library's internal controls 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 effective controls. However, larger libraries generally have a need for more fool-proof controls due to the number of employees, transactions, and resources for which they may be responsible. 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 procedures to follow when performing various functions and allows for easy follow up and investigation in situations that warrant it.

SECTION 4
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 lifestyle appears inconsistent with their income level.
- An employee is overly nervous about audits or regularly calls in sick during the audit process.
- An employee will not share duties and is overly sensitive with their workspace such as keeping drawers locked and not allowing others to perform their job while absent.
- An employee that handles cash or sign checks does not take allowed vacations.
- An employee works excessively on weekends or after business hours.
- An employee is experiencing personal financial difficulties.
- None of the library's forms or documents are pre-numbered.
- Petty cash is missing.
- Typos or spelling errors on bank statements or invoices.
- 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 issued 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 in which an employee has an undisclosed ownership or financial interest.
- Credit memos are expected or received, but the cash is not deposited.
- Unexpected correspondence is received from federal, state, or local authorities.
- Correspondence is found hidden in an employee's absence.

SECTION 5
OTHER RELATED INTERNAL CONTROL POLICIES

Other related internal controls policies that are recommended include:

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 within the chain of command. See Appendix 3.3 for Sample Fraud Risk Management Policy.

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, board members or outside parties to whom such information can be reported. See Appendix 3.4 for Sample Whistleblower Policy.

ANTI-THEFT POLICY

Studies have proven that employees are less likely to steal from their employers if the employee handbook directly tells them not to.

PERSONALLY IDENTIFIABLE INFORMATION (PII) POLICY

Personally identifiable information (PII) is information that can be used on its own, or combined with other information, to identify, trace, contact, or locate a person. In today's environment where identity theft is such a concern, it is important that libraries exercise due care in safeguarding personal information of employees, patrons, and board members. Examples of PII are:

- Name
- Personal identification number
- Address information
- Telephone numbers
- Personal characteristics
- Personally owned property
- Information about an individual that is linked or linkable to any of the above

PII can be in either an electronic or a physical environment. Electronic environments include such items as personal computers, networks, and databases. Physical environments are those environments that are tangible and should have specified locations and authorized access points.

Libraries, and all entities, have a moral and ethical obligation to protect all PII residing in its environment. At the library level, this protection is important because if PII is compromised, this could potentially cause loss of records, loss of public trust, legal liability, and remediation costs. At the patron level, if PII is compromised it could cause identity theft, embarrassment, and even blackmail by others. Libraries can apply safeguards for the protection of PII by creating policies and procedures. In addition, the Library Privacy Act, Public Act 455 of 1982, MCL 397.1, includes specific prohibitions on the sharing of certain information.

Below are recommendations relating to the assessment, development, and implementation of a PII policy:

- Identify all PII residing in the library's environments, both electronically and physically.
- Minimize the use, collection, and retention of PII
  - Review current holdings for relevance
  - Reduce holdings to that which is minimally necessary
  - Develop a schedule for periodic review of holdings
  - Establish a plan to eliminate unnecessary collection and use of PII
- Categorize environments and information by impact level
  - Not all environments are created equal
  - Quantity of records maintained
  - Sensitivity of information held
  - Context of information held
  - Access and location of records
- Apply safeguards
  - Conduct training
  - De-identify PII
  - Control access to physical locations
  - Control access to electronic records
  - Enforce access control
  - Apply transmission confidentiality by requiring encryption in an electronic environment
- Incident Response Plan
  - Adequate insurance coverage
  - When and how employees are notified
  - How will the incident be reported publicly
  - Remedial services

SECTION 6
RESOURCES

Committee of Sponsoring Organizations of the Treadway Commission (COSO)
www.coso.org

GAO – The Green Book
www.gao.gov/greenbook

Association of Certified Fraud Examiners
www.acfe.com

U.S. Department of Commerce, National Institute of Standards and Technology (NIST) *Guide to Protecting the Confidentiality of Personally Identifiable Information (PII)*
csrc.nist.gov/publications/detail/sp/800-122/final

Governmental Finance Officers' Association – Best Practices and Policies
www.gfoa.org/best-practices

CHAPTER 11 – STATE COMPLIANCE

OBJECTIVE/SUMMARY

The purpose of this chapter is to provide the reader with an overview of financial compliance requirements applicable to libraries that are mandated by the State of Michigan. A brief outline of the chapter follows

Section 1 – Reporting Requirements
Section 2 – Policy Requirements
Section 3 – Other Requirements
Section 4 – Compliance Checklist
Section 5 – Resources

LEARNING PREREQUISITES

To effectively use this chapter of this guide, the user should be familiar with Chapter 1 – *Accounting for Libraries,* with specific emphasis on Section 5 – *Types of Accounting Transactions*; Chapter 6 – *Budgeting*; and Chapter 7 – *Financial Reporting*.

SECTION 1
REPORTING REQUIREMENTS

In addition to governmental accounting requirements, as prescribed by the Governmental Accounting Standards Board, and recommended best practices, the Michigan legislature imposes additional compliance requirements that a library must adhere to which directly relate to financial management.

AUDITING PROCEDURES REPORT

As described in Chapter 7 – *Financial Reporting*, the library is required to electronically submit its audited financial statements within six months of the library's fiscal year-end in accordance with Michigan Public Act 2 of 1968, MCL 141.427. This requirement is performed in conjunction with the filing of the annual Auditing Procedures Report (APR), Form 496, which is also due to the Treasury within six months after the library's fiscal year-end. The APR is completed by the library's auditor, and the audited financial statements are included in this submission. In addition to reporting financial information, a large element of the APR is testimony from the auditor regarding the library's adherence with various state compliance requirements.

RETIREMENT SYSTEM ANNUAL REPORT

Public Act 202 of 2017, MCL 38.2801 et. seq, requires pension and retiree health care reports for retirement systems to be filed electronically, no later than six months after year-end using Form 5572. See Chapter 7 – *Financial Reporting*, for detailed discussion.

MUNICIPAL FINANCE QUALIFYING STATEMENT

A library that wishes to borrow money or issue securities (i.e. bonds) must comply with Public Act 34 of 2001, MCL 141.2101 et. seq., the Revised Municipal Finance Act. Certain borrowings are not subject to this Act, including contracts for the purchase of real or personal property. Prior to the issuance of such debt, a library must submit a Municipal Finance Qualifying Statement, Form 5047, to the Michigan Department of Treasury and obtain approval. Once a Qualifying Statement Letter is received, no further approval is required until 30 days after the next qualifying statement is due. Annual Qualifying Statements are due each year, within six months of year-end, accompanied by the annual audit report.

DEFICIT ELIMINATION PLAN

In accordance with the Glenn Steil State Revenue Sharing Act of 1971, Public Act 140 of 1971, MCL 141.901 et. seq., if the library ends its fiscal year with any fund in a deficit condition, the governing body must develop and file a deficit elimination plan, along with the certified resolution, to the Department of Treasury. Plans and certified resolutions must be uploaded online at https://www.michigan.gov/treasury/local/online-filing, click on the "Deficit Elimination Plan Upload" link. The plan may be filed as soon as 24 hours following the submission of the Auditing Procedures Report to Treasury. It is the Treasury's expectation that libraries required to submit a plan will do so in an expeditious manner.

The calculation to determine a deficit is different for governmental funds than it is for proprietary, fiduciary, and discretely presented component unit funds. The specific calculations for the various funds can be found in the Michigan Department of Treasury Deficit Elimination Plan Guidance. It is important to note that a negative net position of governmental activities is not a deficit as defined by Treasury. There are no reporting requirements applicable should this exist at your library.

SECTION 2
POLICY REQUIREMENTS

The following policies are required by Michigan state statute:

ELECTRONIC TRANSACTIONS POLICY

Every library is required to have an electronic transactions policy if it pays bills electronically, in accordance with Public Act 738 of 2002, MCL 124.301 et. seq. The governing body is required to adopt, by resolution, a written policy for electronic transactions (often called "ACH" transactions, referring to the automated clearing house used to process electronic payments) that includes the following requirements:

- The officer or employee designated is responsible for the library's ACH agreements, including payment approval, accounting, reporting, and compliance oversight of the ACH policy.
- The designated officer or employee is responsible for submitting to the governing board documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by the payment. This may be contained in the general ledger software or in a separate report
- A system of internal accounting controls to monitor the use of ACH transactions.
- The approval of ACH invoices prior to payment.
- Any other matters the governing body deems necessary.

CREDIT CARD PURCHASES POLICY

If the library uses credit cards for purchasing good or services, the library is required to have a policy in accordance with Public Act 266 of 1995, MCL 129.241 et. seq. Municipal libraries may not have credit cards unless issued by the municipality (see Chapter 1, Section 5 for further discussion). The governing body is required to adopt, by resolution, a written policy that includes the following requirements:

- The officer or employee designated is responsible for the credit card issuance, accounting, monitoring, and retrieval, and general compliance oversight.
- The credit card may be used only by an officer or employee of the library for goods or services for official business of the library. The policy may limit the specific business for which the credit card may be used.
- The officer or employee using the credit card shall submit documentation that details the goods or services purchased, their purpose, cost, the date of the purchase.
- The officer or employee who is issued a credit card is responsible for its protection and custody and shall immediately notify the library if the credit card is lost or stolen.

- The officer or employee who is issued a credit card shall return the credit card upon the termination of service in office or employment with the library.
- A system of internal accounting controls to monitor the use of credit cards issued by the library.
- The approval of credit card invoices before payment.
- The balance, including interest due, shall be paid within 60 days of the initial statement date.
- Disciplinary measures for the unauthorized use of a credit card, consistent with laws.
- Any other matters the governing body deems necessary.

Note: In accordance with MCL 129.241 et. seq., district libraries may obtain and use their own credit cards, however, municipal libraries are required to obtain credit cards through the municipality,

CREDIT CARD RECEIPTS POLICY

If payments by credit card, debit card, or other financial transaction devices are accepted, the library is required to have a policy in place in accordance with Public Act 280 of 1995, MCL 129.221 et. seq. The governing board shall adopt, by resolution, a credit card receipts policy that includes the following:

- The types of financial transaction devices that may be accepted, and shall comply with the library's resolution for the deposit of public money.
- The types of fees for which credit card payments will be accepted.

INVESTMENT POLICY

All Michigan libraries are required to adopt a formal investment policy that meets the minimum requirements of Public Act 20 of 1943, MCL 129.95. Details of the minimum requirements of the policy and further discussion can be found in Chapter 2 – *Assets and Deferred Outflows of Resources*.

SECTION 3
OTHER REQUIREMENTS

Various state compliance requirements have been discussed throughout other chapters of this guide, such as the mandated use of a uniform chart of accounts (see Chapter 1) and budgetary requirements (see Chapter 6). State legislature also requires libraries to adhere to the following compliance requirements.

RECORD RETENTION

Under Public Act 470 of 2016, MCL 399.811 and Public Act 328 of 1931, MCL 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 State of Michigan Records Retention. Records cannot be destroyed unless their disposal is authorized by an approved Retention and Disposal Schedule. Furthermore, email is considered an official document that falls within the provisions of the state's record and retention rules. A library may adopt its own record retention and disposal plan and submit it for approval by the Records Management Service. Michigan's Records Management Services (RMS) provides assistance to libraries for the management of records and information.

TAX EXEMPT PURCHASES

The General Sales Tax Act and Michigan Sales and Use Tax Administrative Rule, 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. Typically, a library will provide its vendors with a certificate of exemption at the time of purchase.

UNCLAIMED PROPERTY

Libraries often have cash, or other items, that are unclaimed by their rightful owner. The most common form of unclaimed property is checks that the library has issued, but remain outstanding. Unclaimed property can be either tangible or intangible property. Michigan's Unclaimed Property program is governed by the Michigan Uniform Unclaimed Property Act (Public Act 29 of 1995, as amended), and every library should have procedures in place so as to be in compliance. Every library holding unclaimed property belonging to someone whose last known address is in Michigan must report. Unclaimed property needs to go through a "dormancy period" before it is considered officially 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 of the same year. Libraries that have no unclaimed property are not required to file a zero/negative report, but are strongly encouraged to do so to establish a filing history and ensure compliance. More information can be found in the Manual for Reporting Unclaimed Property.

UNIFORM CHART OF ACCOUNTS

Public Act 2 of 1968 placed a requirement on the Michigan Department of Treasury ("Treasury") to prescribe a Uniform Chart of Accounts (UCA) to be utilized by local units of government in Michigan to establish a standard reporting format and promote comparability across multiple entities. The UCA has been modified several times over the years, most recently in November of 2020. Most governmental libraries in the State of Michigan fall under the definition of a local unit of government and therefore are expected to follow the applicable requirements.

Responsibility for compliance with the UCA rests with the Chief Administrative Officer of the local unit of government and non-compliance is reported to Treasury by the independent auditors on the annual Auditing Procedures Report. Some libraries that are part of larger governmental units, such as a City or Township library, may be a part of that larger entity's chart of accounts and therefore the primary government would be responsible for compliance with the UCA. Stand-alone libraries such as District libraries or Library Cooperatives will be responsible for compliance on their own. Consult with the independent auditor if you have questions on applicability of the Uniform Chart of Accounts.

The Uniform Chart of Accounts is required to be implemented as of fiscal years ended October 31, 2022 or later. This is a minimum requirement. Treasury recommends that the UCA be implemented as of the beginning of the fiscal year, which can help with budgetary integration as well as in situations where the accounting software does not support a year-end change with corresponding history included. A detailed implementation schedule is posted on Treasury's website.

The UCA specifies an account number that is comprised of three components – a Fund number, an Activity number, and an Account number. Each of these three components is itself a three-digit number, so as a result all accounts in the general ledger will have a minimum number of digits totaling nine. In addition, Activity and Account numbers can "point off" the specified number if desired to have more detail which will create a longer account number when this option is used. Some accounting packages, such as QuickBooks, do not allow for a nine-digit account number. In the case of QuickBooks (which is not recommended for governmental fund-accounting use, see previous discussion), the fund number may be omitted providing that a separate "company" is used for each fund in the library's general ledger. Other specific situations involving the length of the account number may require consultation with the library's software vendor to determine a method of compliance with the UCA.

The three-digit fund number for a General Fund (which would be found only in stand-alone libraries) is 101. The three-digit fund number for a library that is part of a larger entity is 271. Other fund numbers that may apply to governmental libraries are 371 (Library Building Debt Fund), 471 (Library Building Fund), 731 (Retirement System Fund), and 737 (OPEB Fund). If a library desires to record the government-wide (or full accrual) financial statement balances in the general ledger (not required), a fund number of 900+ would be used.

The Activity number can be thought of as a "Department" number in many cases. Balance sheet accounts would apply to the fund as a whole and therefore would use an Activity number of 000. Revenue accounts also would generally use the 000 Activity number unless the library is tracking revenues by department. The Activity number specified for libraries (under the recreation and culture function) is 790. A library cooperative would use Activity number 791. As previously indicated, if more detail in the Activity number is needed, it is acceptable to "point off" the specified number, such as using 790.1, 790.2, and so on to denote various departments within the library.

Account numbers are the final component that defines what a given general ledger account is used for, such as Cash, Accounts Receivable, Accounts Payable, Fund Balance, Revenues, and Expenditures. The UCA gives ranges of acceptable numbers for various types of accounts, rather than specific numbers such as in the case of Fund and Activity numbers. For example, the Account number for Cash and Investments can be any number from 001 to 017; tax revenues are numbered from 402 to 449; and personnel services are numbered from 702 to 725. Again, if more detail is needed, it is acceptable to "point off" any account number in the same manner as described above.

Some software packages have utilities available which are used to change the account numbering used in the library's general ledger all at once, including the historical data. This would create a scenario where the general ledger after implementation of the UCA will appear as though it was in use all along. Libraries should consult with their software vendors to determine an implementation strategy and methodology.

SECTION 4
COMPLIANCE CHECKLIST

The checklist below may be a useful tool for ensuring that the library remains in compliance with state requirements:

	YES	NO
Have all bank reconciliations been performed timely (within approximately six weeks of month end)?		
Are all unassigned fund balances and unrestricted net assets positive amounts (fund financial statements only)?		
If not, was a deficit elimination plan filed?		
Were all expenditures within authorized budget amounts?		
Are the accounting records maintained in accordance with the Uniform Accounting Procedures Manual, Chart of Accounts, and other requirements of the Department of Treasury? At a minimum, this would include: • Detailed receipts journal • Detailed disbursements journal, and • Cash balance journal which includes all funds		

	YES	NO
Has the library adopted a budget for the general fund and each special revenue fund prior to the beginning of the fiscal year?		
Was a public hearing held prior to the final passage of a budget?		
Was the final budget amendment done prior to the fiscal year-end?		
IHas restricted or debt retirement funds been funded and used for proper purposes? Improper purposes include: • Comingling of debt retirement funds • Interfund borrowing from debt retirement funds • Transfer of excess debt retirement funds to the operating fund if municipal securities are outstanding		
If the library borrowed money, issued bonds, or issued notes, have the procedures required by the Municipal Finance Act or the Revised Municipal Finance Act been adhered to?		
If the library has outstanding bonds, has the annual Municipal Finance Qualifying Statement been filed?		
Is the library free of illegal or unauthorized expenditures as defined in the manual for Audits of Local Units of Government in Michigan (Appendix H of that manual)?		
If the library accepts payments by credit card has the library board adopted by resolution a written policy allowing the acceptance of payments by financial transaction devices per MCL 129.221-129.224?		
If the library uses credit cards for purchasing goods or services, has the library board adopted by resolution a written policy that includes the requirements of MCL 129.241-129.247?		
If the library pays bills electronically (ACH transactions) has the library board adopted by resolution a written policy for electronic transactions that includes the requirements of MCL 124.301-124.305?		
Has the current year pension actuarially determined contribution been paid by the library, as required by the State Constitution Article 9, Section 24?		
Are investments allowable and has the library board adopted by resolution an investment policy in accordance with Public Act 20 of 1943, MCL 129.91?		

SECTION 5
RESOURCES

Michigan Department of Treasury Deficit Elimination Plan Guidance
https://www.michigan.gov/-/media/Project/Websites/treasury/Letters/Numbered/NumberedLetter20161.pdf

Record Retention – Disposition of Public Records
https://www.michigan.gov/dtmb/services/recordsmanagement/gov-services/disposition-of-public-records

Record Retention – General Schedules for Local Government
https://www.michigan.gov/dtmb/services/recordsmanagement/schedules/GSLocal

Record Retention Schedule – General Schedule #17 – Public Libraries
https://www.michigan.gov/-/media/Project/Websites/dtmb/Services/Records-Management/RMS_GS17.PDF

Michigan Department of Treasury – Unclaimed Property
unclaimedproperty.michigan.gov/

Manual for Reporting Unclaimed Property
https://unclaimedproperty.michigan.gov/docs/MI_Unclaimed_Property_Manual.pdf

Manual for Audits of Local Units of Government in Michigan
https://www.michigan.gov/-/media/Project/Websites/treasury/Delta2/E/Audit_Manual_for_LUG_in_Michigan_383593.pdf

APPENDIX 1.1

SAMPLE LIBRARY

BUDGET VS. ACTUAL

AS OF DECEMBER 31, 20XX

	December 20XX	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%

APPENDIX 1.2

SAMPLE LIBRARY

BALANCE SHEET

AS OF DECEMBER 31, 20XX

	General Fund
ASSETS	
Cash and Cash Equivalents	$384,000
Investments	232,000
Accounts Receivable	30,000
Due from Other Governmental Units	40,000
Prepaids	2,000
TOTAL ASSETS	$688,000
LIABILITIES & FUND BALANCE	
Liabilities	
Accounts Payable	$210,000
Accrued Payroll	2,500
Due to Other Governmental Units	5,000
Total Liabilities	**$217,500**
Fund Balance	
Restricted for Capital Improvement	$ 25,000
Unassigned	445,500
Total Fund Balance	**$470,500**
TOTAL LIABILITIES & FUND BALANCE	$688,000

APPENDIX 1.3

SAMPLE LIBRARY

PROFIT AND LOSS

JANUARY 20XX THROUGH DECEMBER 20XX

	YTD
REVENUES	
Property Taxes	$58,000
Penal Fines	15,000
Grants	7,500
Other	5,100
TOTAL REVENUES	**$85,600**
EXPENDITURES	
Personal Services	$39,000
Building Operations	5,700
Collection	1,000
Capital Outlay	1,500
Other Operating	2,900
TOTAL EXPENDITURES	**$50,100**
NET INCOME	**$35,500**

APPENDIX 2.1

SAMPLE LIBRARY

STATEMENT OF NET POSTION

DECEMBER 20XX

	Governmental Activities
ASSETS	
Current Assets	
Cash	$1,074,622
Investments	840,412
Accounts Receivable	7,154
Due from other governmental units	863
Inventories	23,872
Prepaids	16,523
Total Current Assets	$1,963,446
Noncurrent Assets	
Capital Assets not being depreciated	340,000
Capital Assets, net of accumulated depreciation	1,836,341
Total Current Assets	**$4,139,787**
LIABILITIES	
Current Liabilities	
Accounts payable	$62,676
Accrued liabilities	9,527
Accrued interest payable	4,593
Current Portion of Compensated Absences	10,383
Current Portion of Long-term Debt	45,000
Noncurrent liabilities	
Noncurrent Portion of Compensated Absences	28,423
Noncurrent Portion of Long-term Debt	555,000
Total Noncurrent Liabilitiest	583,423
Total Liabilities	**$718,602**
NET POSITION	
Net Investment in Capital Assets	$1,576,341
Restricted	290,196
Unrestricted	1,554,648
TOTAL NET POSITION	$3,421,185

APPENDIX 2.2

SAMPLE LIBRARY

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 20XX

		Program Revenues		Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Revenues and Changes in Net Position
Governmental Activities				
Recreation and Cultural	$725,306	$22,486	$48,210	$(654,610)
Interest on Long-term Debt	31,204	-	-	(31,204)
TOTAL REVENUES	**$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
TOTAL GENERAL REVENUES				**$838,865**
CHANGE IN NET POSITION				**$153,051**
NET POSITION, BEGINNING OF YEAR				**$3,268,134**
NET POSITION, END OF YEAR				**$3,421,185**

APPENDIX 2.3

SAMPLE LIBRARY

GOVERNMENTAL FUNDS

BALANCE SHEET

DECEMBER 20XX

	General	Debt Service	Nonmajor Governmental Funds	Total
ASSETS				
Cash	$809,522	$184,256	$80,844	$1,074,622
Investments	756,144	-	84,268	840,412
Accounts Receivable	7,154	-	-	7,154
Due from other governmental units	863	-	-	863
Inventories	23,872	-	-	23,872
Prepaids	16,523	-	-	16,523
TOTAL ASSETS	**$1,614,078**	**$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	**$72,203**			**$72,203**
FUND BALANCES				
Non-Spendable	$40,395	-	-	$40,395
Restricted	-	184,256	110,533	294,786
Committed	251,043	-	54,579	305,622
Assigned	150,000	-	-	150,000
Unassigned	1,100,437	-	-	1,100,437
TOTAL FUND BALANCES	**$1,541,875**	**$184,256**	**$165,112**	**$1,891,243**
TOTAL LIABILITIES AND FUND BALANCES				**$1,963,446**

APPENDIX 2.4

SAMPLE LIBRARY

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 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
Other				
Miscellaneous	2,398	-	-	2,398
Contributions	42,073	-	1,300	43,373
TOTAL REVENUES	**$740,950**	**$157,905**	**$10,654**	**$909,509**
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	**75,456**	**972**	**9854**	**86,282**
Fund Balances, beginning of year	1,466,419	183,284	155,258	1,804,961
FUND BALANCES, END OF YEAR	**$1,541,875**	**$184,256**	**$165,112**	**$1,891,243**

APPENDIX 2.5

SAMPLE LIBRARY

GOVERNMENTAL FUNDS

BUDGETARY COMPARISION SCHEDULE

YEAR ENDED DECEMBER 31, 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
Other				
Miscellaneous	-	2,398	2,398	-
Contributions	13,950	13,950	42,073	28,123
TOTAL REVENUES	**$702,729**	**$705,127**	**$740,950**	**$35,823**
EXPENDITURES				
Current				
Recreation and Cultural				
Personnel	$356,200	$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	**$675,100**	**$718,167**	**$665,494**	**$52,673**
NET CHANGE IN FUND BALANCES	**27,629**	**(13,040)**	**75,456**	**88,496**
Fund Balances, beginning of year	1,466,419	1,466,419	1,466,419	-
FUND BALANCES, END OF YEAR	**$1,494,048**	**$1,453,379**	**$1,541,875**	**$88,496**

APPENDIX 3.1

SAMPLE INVESTMENT POLICY

Purpose: An investment policy should state the reason it has been 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, or 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.

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.*

APPENDIX 3.2

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 furniture, equipment, improvements, buildings, or other assets, which have a life expectancy of more than a year, and when purchased have an individual price in excess of _____ dollars ($ _____). Capitalized items will also include the library's collection of books that have a life expectancy of more than a year, regardless of price.

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 like folders, envelopes, stamps, paper, pencils tape, staplers) are expensed.

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. This does not include collections of the library [or amend to say that it does].

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

Library collections, and all additions to that collection, of governmental entities are not required to be capitalized whether donated or purchased that meet certain conditions. However, in accordance with recommended best practices of the Government Finance Officers Association, the library considers that by not capitalizing the collection of books would be an omission of an entire class of assets. Therefore, the library has opted to capitalize its collection of books.

Circulating library materials are not capitalized because they fail to meet the library's useful life criteria.

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 recorded using the straight-line depreciation method over the useful life of the asset. All capitalized assets will be listed with their description, date of acquisition, acquisition cost, useful life, and 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.

APPENDIX 3.3

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.

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. For more information about what are considered library funds and assets please review Section 4, Chapter 23 "Limits of Municipal Expenditures" in the Michigan Municipal League's Handbook for Municipal Officials available online at http://www.mml.org/resources/publications/ebooks/index.html#hmo.

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 should have a policy that identifies a spokesperson. The spokesperson could be the library Director, a designated staff person, or a trustee. No other employee should speak for the library, unless specifically authorized to do so; and should refer all communication matters to the designated person.

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.

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, including the Library Privacy Act

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.

APPENDIX 3.4

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 when providing information in good faith they will be protected from retaliation or victimization
- 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's director. In general, however, the Whistle-Blowing Policy should be applied for issues that are potentially more serious and/or sensitive. The first step is to approach the library director. If the subject of the allegation happens to be the 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's 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; in compliance with the Library Privacy Act
- 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.

APPENDIX 3.5

SAMPLE FUND BALANCE POLICY

Purpose

The following policy has been adopted by the Board of Trustees 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 library and jeopardize the continuation of necessary public services. This policy will ensure that the library 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 library's fund balance and reserve policies.

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the library. The library 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 library'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:

Non-spendable 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 intact.

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

- The library will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other library funds).
- The library 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 library will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact.
- The library 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 library's highest level of decision-making authority (i.e., the Board of Trustees).

Authority to Commit — commitments will only be used for specific purposes pursuant to a formal action of the Board of Trustees. 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 Library 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 Trustees 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 library'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 non-spendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

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 library 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 library that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

Minimum unassigned fund balance — the library will maintain an unrestricted fund balance in the General Fund ranging from [20] percent to [30] percent of current year general operating expenditures. 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. Unrestricted fund balances, for the purpose of this fund balance recalculation, will include unassigned and assigned fund balances.

Replenishing deficiencies — when fund balance falls below the minimum [20] percent range, the library will replenish shortages/deficiencies using the budget strategies and timeframes described below.

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

- The library will reduce recurring expenditures to eliminate any structural deficit or,
- The library 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 [15] percent and [20] percent shall be replenished over a period not to exceed one year.
- Deficiency resulting in a minimum fund balance between [10] percent and [15] 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 the unrestricted fund balance of the General Fund ever exceed the maximum [30] percent range, the library 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 Trustees 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 Trustees.

APPENDIX 4

SAMPLE LIBRARY

GENERAL FUND – BUDGET

YEAR ENDED DECEMBER 31, 20XX

Account Number	Account Description	Prior Year Actual	Prior Year Budget	Proposed Budget
REVENUES				
101-000-402	Property taxes	$200,000	$210,000	$212,000
101-000-540	Penal fines	47,500	43,600	40,600
101-000-574	State aid	12,000	12,000	13,000
101-000-658	Circulation fines and fees	9,000	10,000	10,000
101-000-602	Charges for services	3,000	3,000	3,000
101-000-669	Investment income	1,000	1,000	1,000
101-000-674	Contributions and donations	500	400	400
TOTAL REVENUES		$273,000	$280,000	$280,000
EXPENDITURES				
101-792-702	Salaries & wages	$150,000	$156,000	$161,000
101-790-716	Employee insurances	30,000	32,000	32,000
101-790-718	Retirement	15,000	15,000	16,000
271-790-719	FICA & Medicare	11,500	11,500	12,000
271-790-727	Supplies	3,500	4,000	4,500
101-790-728	Library books	15,000	18,000	19,000
101-790-801	Services	12,000	11,000	11,000
101-790-860	Staff training and travel	2,000	2,000	2,500
101-790-920	Utilities	12,000	12,500	12,500
101-790-930	Repairs and maintenance	10,000	8,000	10,000

Account Number	Account Description	Prior Year Actual	Prior Year Budget	Proposed Budget
EXPENDITURES Continued				
101-790-955	Membership/dues	500	500	500
101-790-960	Miscellaneous	500	500	500
101-790-971	Capital outlay	10,000	14,000	100,000
TOTAL EXPENDITURES		$272,000	$285,000	$381,500
TOTAL EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES		$1,000	$(5,000)	$(101,500)
BEGINNING FUND BALANCE		$1,301,000	$1,301,000	$1,301,000
PROJECTED FUND BALANCE		$1,302,000	$1,296,000	$1,199,500

APPENDIX 5.1

SAMPLE REQUEST FOR PROPOSAL AUDIT SERVICES

NOTICE OF PROPOSAL

The [Name of Library] is issuing this request for proposal (RFP) for the financial audit of the library's financial statements, and if necessary, an audit in accordance with the Single Audit Act. The contact person regarding this RFP is [Name] and can be reached at [phone number, email address]. The response due date for this RFP is [date and time]. Any proposals received after this time will not be considered. We are requesting [number] of 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 [date(s)] and may be extended at the discretion of library.

AUDITING STANDARDS

Your examination will be conducted in accordance with auditing standards generally accepted in the United States of America, and, if a Single Audit is required your examination will be conducted in accordance with governmental audit standards issued by the Comptroller of the United States and standards contained in OMB's Uniform Guidance.

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 [date and time]. We anticipate the successful bidder will be notified by [date, time, and delivery method such as mail or email].

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 [number] of 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.

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 does not have a record of substandard work.

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. Résumés including relevant experience and continuing education for the 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 Uniform Guidance 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.

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.

APPENDIX 5.2

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

APPENDIX 6

SAMPLE LIBRARY

SAMPLE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 20XX

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal Assistance Listing Number	Grant Number	Grant Award Amount	Accrued (Deferred) Revenue December 31, 20XX
Institute of Museum and Library Services				
Passed through Michigan Department of Education				
Future Ready with the Library	45.313	XXXXXX	$500,000	$ -
National Leadership Grant	45.312	XXXXXX	250,000	-
Total Institute of Museum and Library Services				-
U.S. Department of State				
Federal Assistance Award	45.024	XXXXXX	30,000	5,000
Total U.S. Department of State				5,000
TOTAL FEDERAL AWARDS				$5,000

chart continued on next page

Appendix 6 chart continued

Current Year Receipts	Current Year Expenditures	Adjustments	Accrued (Deferred) Revenue December 31, 20XX	Transferred to Subrecipient
$400,000	$500,000	$ -	$100,000	$ -
50,000	250,000	-	200,000	-
450,000	750,000	-	300,000	-
5,000	10,000	-	10,000	-
5,000	10,000	-	10,000	-
$455,000	**$760,000**	**$ -**	**$310,000**	**$ -**

APPENDIX 7

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	
		Yes	No
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?		
8.	Are receipts required to be given to patrons when cash is received?		
9.	Are receipts prenumbered and accounted for by someone other than the clerk issuing the receipts?		
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?		

		ANSWER	
		Yes	No
6.	Is the library bookkeeper prohibited from signing checks?		
7.	Is the practice of drawing checks to "cash" or "bearer" prohibited?		
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 signature stamps are used, are the stamps safeguarded in a controlled location?		
15.	Are blank checks safeguarded in a controlled location with limited access?		
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 an 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 amount 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?		
9.	Is petty cash in a controlled location that is only accessible by authorized individuals?		

		ANSWER	
		Yes	No
10.	a. Are vouchers and supporting documents (invoices and receipts) checked by a person other than the keeper of petty cash at the time the petty cash account is reimbursed?		
	b. Does that employee verify the unexpended balance of the petty cash account?		
11.	Are the amounts of the vouchers spelled out in words as well as written in numerals?		
12.	Are petty cash vouchers marked "paid" so as to preclude their reuse?		
13.	Are checks for reimbursement made out to the order of the petty cash custodian rather than to "cash?"		
14.	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 ensuring 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?		
9.	Are securities reviewed periodically to ensure only current board members or employees are authorized signers?		
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?		

		ANSWER	
		Yes	No
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 (board member, library director, department head, or other assigned person outside of the human resource function) performs the following:

- Review of pay rates to ensure that the rate paid is the approved rate
- Review of each payroll to ensure that only current employees are being paid
- Review of each payroll to ensure that all employees are recognized and there are no ghost employees

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 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.

ADVANCE METHOD
When grant funds are requested or received prior to the incurrence of grant costs.

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 vendors 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
An audit 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.

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.

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 successfully complete a uniform national examination before being designated 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.

CHIEF ADMINISTRATIVE OFFICER
The official who is granted to have general administrative control of the organization that may expend funds of the organization.

CLASSIFICATION
The type of account within the chart of accounts that a transaction is assigned. For example, an electric expense is "classified" as a utility expense and recorded in a utility expense account code.

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.

CONTRA ASSET ACCOUNT
An asset account that holds a credit (negative) balance in the general ledger and is used to decrease the balance of another asset account. These types of accounts are also referred to as offset accounts. Accumulated depreciation is the most commonly found example of a contra asset account.

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. Library debts usually include bonds and notes, and installment purchase agreements.

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 INFLOW OF RESOURCES
Acquisition of resources that are applicable to future reporting periods that will be reported in a separate section after liabilities. Often referred to as "deferred inflows."

DEFERRED OUTFLOW OF RESOURCES
A consumption of resources that are applicable to a future period that will be reported in a separate section following assets. Often referred to as "deferred outflows.'

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

DEPRECIATION
An allocation of expenses which spreads the cost of a capital asset over its useful life, thus expensing the cost over the periods that are benefitted. The accumulation of depreciation expense over time is held in an "accumulated depreciation" account which is a contra asset account.

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 self-supporting fund that provides goods or services to the public for a fee.

ENTRY
The record of a financial transaction in the accounting records.

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
are required.

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)
A designated organization in the private sector that establishes standards of financial accounting that govern 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 12-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

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources of a governmental fund.

FUND TYPE

Any one of several categories into which all funds are classified. The fund types for governmental libraries are: General, Special Revenue, Debt Service, and Capital Projects, and Permanent Funds.

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

GENERAL LEDGER

A record containing the accounts needed to reflect the library's financial position and operational results. 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 financial presentations are measured.

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. These standards 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. Government Accountability Office (GAO) in its publication *Government Auditing Standards* ("Yellow Book") for the conduct and reporting of financial and compliance audits.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)

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

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

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

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 the financial transactions of the library are recorded. See General Ledger and Subsidiary Ledger.

LIABILITIES

Amounts owed to others.

LONG-TERM DEBT

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

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 funds that do not meet the mathematical criteria as major funds if they believe that they are important to financial statement users.

MAJOR PROGRAM

Major programs are federal programs selected for specific testing by the auditor as prescribed by Uniform Guidance (2 CFR 200). They are generally the largest and/or riskiest federal programs of the entity. Auditors select at least one major program as part of each single audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

MD&A is a required part of audited financial statements that introduces the basic financial statements and provides an 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 '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.

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. There is typically a nominal fee charged that is based on the amount of assets held in the fund.

NET OPEB LIABILITY

An accumulation of actuarially determined amounts that estimate the future obligation of the library for post-employment benefits other than pensions to employees.

NET PENSION LIABILITY

An accumulation of actuarially determined amounts that estimate the future obligation of the library for retirement benefits to employees.

NET POSITION
The difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in 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.

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); commonly referred to as simply a "prepaid."

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.

REIMBURSEMENT METHOD
When grant funds are requested for reimbursement after the costs have been incurred.

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 organization's federal grant programs as required by the Single Audit Act performed in accordance with Uniform Guidance (2 CFR 200). A single audit is required when annual federal expenditures exceed $750,000 in the fiscal year.

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."

SPECIAL REVENUE FUND
Used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

STATEMENT OF ACTIVITIES
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
Displays all of the assets, liabilities, and deferred outflow/inflows of resources applicable to the library. 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 summarized list of balances and activity for each unique account at a specific point in time that is derived from the general ledger. The trial balance will always sum to zero, debits will equal credits, if double-entry accounting was used correctly.

TRUSTEE
A fiduciary that holds property on behalf of another.

UNEARNED REVENUE
Payment that has been received but has not yet been earned. For example, the library receives a payment in advance for an event that is to occur next month. Unearned revenue is classified as a liability on the financial statements until it has been earned. Once it has been earned, it then becomes revenue.

UNRESTRICTED FUND BALANCE
Although not an official category of fund balance, it is used as a general term when calculating a percentage of fund balance and includes committed, assigned, and unassigned fund balances.

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

LIBRARY OF MICHIGAN

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