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## CHAPTER FIFTEEN

## Managing the Library's Money

**[Disclaimer:** *The information in this handbook is not legal advice. We recommend that you consult an attorney if you have any questions about how the laws apply to your library.*]

While a library advisory board is usually limited to budget proposal input, the library governing board has the ultimate responsibility for all aspects of library financial management—from budgeting to spending to financial reporting. Your community will be much more willing to provide the resources necessary for high-quality library service when they know library finances are carefully controlled and monitored.

### The board controls and monitors library finances by:

- Careful development and approval of the budget
- Review and approval of all library expenditures
- Review and monitoring of monthly financial statements
- Development of policies for the handling of large gifts and donations
- Accurate financial reporting
- Careful attention to financial audits, reviews or compilations by a qualified CPA

### Approval of Library Expenditures

Being a non-profit entity gives the library board exclusive control of the expenditure of all moneys collected, donated, or appropriated for the library fund. The board exercises this control through the approval of the budget, the establishment of financial policies, and the audit and approval of bills/invoices for all library expenditures.

Basic library financial procedures are as follows:

1. The library board approves the annual budget and any budget adjustments necessary during the year. The library director is delegated authority to make purchases within the budget and according to board- approved purchasing policies.

2. The library director is responsible for preparing vouchers for all expenditures, a monthly list of all library expenditures, and a monthly financial statement.
3. At each regular board meeting, the library board audits and approves payment of the expenditures, and reviews and approves the financial statement.
4. The board secretary, or other designee of the board, signs the vouchers and they are forwarded to the treasurer or clerk for payment.
5. Expenditures approved by the board for payment out of any library-held trust/gift fund accounts are made by the board treasurer or other designee of the board. **It is recommended that board policy or bylaws require two signatures for any payment or withdrawal out of a library- held account.**

## Financial Statements

To facilitate the board's monitoring of library finances, the director should present financial statements that the library board and the general public can understand. The library director should provide monthly financial reports that include:

- Total income and expenditures last month and year-to-date
- Budget balances for each line item and the total budget

To oversee the finances adequately, the board should study financial statements carefully, ask questions, and be sure that they understand any unexpected or unusual expenditures or budget developments.

## Gifts and Donations

For some libraries, a significant source of income is from gifts and bequests. Building a tradition of honoring persons with a gift to the library or including a bequest in a will is a form of giving which trustees can foster.

Library boards should have a policy on acceptance of gifts. The policy should address issues such as these:

- If funds are designated for a special purpose, should the library have the right to refuse the gift if the purpose is unsuitable?
- Is it best to accumulate cash funds in an endowment and draw upon the income?
- Can the library board refuse to take a gift, e.g., a statue it doesn't need or a book collection that is not useful?

- If the purpose is no longer valid, how can the board liberate funds it accepted for a specific purpose?

Having policies responding to these questions will avoid misunderstandings about donations with donors.

## Other Funding Sources

As funding needs arise, many libraries seek grants from foundations, corporations, endowments and government agencies. Local businesses are another option. Boards can solicit funds from these businesses directly or determine if a business has a community support program. Some libraries have established separate library foundations, which function as a separate entity. A foundation can attain non-profit tax status (known as 501(c)3) from the Internal Revenue Service, so that gifts are tax deductible for the donors. For more information on grants and foundations, visit the Foundation Center at [www.fdncenter.org](http://www.fdncenter.org)

## Financial Review or Audit

Funds controlled directly by the library board, such as gift funds or endowments, should be reviewed annually by an outside auditor. You should budget for an outside auditor to conduct the annual audit. Even when not required by law, you should still have annual audits done because many public and private foundations/funders (including governments) require charitable nonprofits to submit audited financial statements or conduct an audit in order to be eligible for funding.

The Maine Public Library Standards requires all libraries to have their financial record keeping reviewed by the governing body (governing board or town officials) and the director at least annually and complies with adequate internal controls using industry standard accounting measures. The standards recommend an audit or review of the library finances at least biannually by a Certified Public Accountant.

The Securities and Exchange Commission (SEC) sets guidelines for financial statement audits (<http://www.sec.gov/corpfin/cf-manual/topic-4>) There are four types of audits to consider:

- Internal – conducted by the agency's own staff
- Compilation- must be done by a CPS, preferably an external CPA and you must disclose if the audit is not done by an external CPA
- Review – must be done by an independent CPA

- Independent – highest standard of audit; must be done by an independent CPA

If a charitable nonprofit is small and has not conducted an audit due to the cost, the nonprofit should not be shy about asking the funder if a more affordable method of evaluating the nonprofit's financial positions would be acceptable, such as a review of certified financial statements.

Whatever type of audit you have, the library board should examine audit reports and carefully follow any audit recommendations.

## Maine Charitable Corporations and Audits

A charitable organization must be licensed in Maine. The license application does not require an audited financial statement. However, the license must be renewed annually. A charitable organization is only required to file an audited financial statement if the organization already has one in existence at the time of renewal or applies for renewal after the expiration date. Otherwise, the organization may file a balance sheet in lieu of an audited financial statement. **Maine. Revised Statute Title 9 § 5004(4)(C-D) | Exceptions: Maine. Revised Statute Title 9 § 5005 – A.**

For more information on this contact the Maine Office of the Secretary of State, the Bureau of Corporations, Elections, and Commissions.

## Safeguarding the Organization's Assets

The governing board must acknowledge and accept its responsibility for safeguarding the organization's assets. The finance committee, working with the executive staff, should develop written financial policies for the organization. These policies should then be reviewed, understood, and approved by the board as a whole. Policies should cover:

- Internal controls and procedures, which should be updated where there are major changes in organizational structure, including:
  - Spending limits policy
  - Signature authority
  - Procurement and purchasing policies
  - Regular review of bank and credit card statements by at least two people

- Documentation of accounting policies and systems
- Travel and entertainment reimbursement
- Bids for services
- Conflicts of interest
- Contractual agreements
- Gifts of securities
- Independent audits
- Investment guidelines for operating and endowment funds
- How much a given item may vary from the budget before it becomes a matter for board review
- Contingency plans for a sudden organizational trauma

When the board develops and approves a policy, it must be monitored. Monitoring compliance with financial policies is one of the primary tasks of the finance committee and should be added to the committee's list of annual tasks.

Every nonprofit organization should have in place conflict-of-interest policies for staff and board. For staff, the policy should appear within the personnel policies. The board policy can be developed by the committee or by staff and approved by the board.

## Sources of Additional Information

- Sample Donation/Gift Policy and Forms (attached)
- Maine Office of the Secretary of State, Non-Profit Corporations [www.maine.gov/sos/cec/corp/nonprofit.html](http://www.maine.gov/sos/cec/corp/nonprofit.html)
- Maine Association of NonProfits (MANP)
- Financial management webinars: <https://www.nonprofitmaine.org/learn/skillbuilders/webinar-recordings/#Financial%20Management>
- Basic Infrastructure Checklist: [http://www.nonprofitmaine.org/wp-content/uploads/2013/01/PP\\_Checklist\\_Final\\_4thEdition.pdf](http://www.nonprofitmaine.org/wp-content/uploads/2013/01/PP_Checklist_Final_4thEdition.pdf)
- Nonprofit Audit Guide [www.councilofnonprofits.org/nonprofit-audit-guide](http://www.councilofnonprofits.org/nonprofit-audit-guide)
- Sample outline of an audit committee's charge (attached)
- Example of an auditor's opinion (attached)
- Candid Learning (formerly Grantspace) fundraising training <https://learning.candid.org/topics/fundraising/>



## Sample Outline of an Audit Committee's Charge

The audit committee's charge will vary depending on the organization, but may include the following elements:

### Responsibilities

- Reviews the adequacy of the organization's internal control structure
- Reviews the activities, organizational structure, and qualifications of the internal audit function (if applicable)
- Reviews the scope and approach of the audit proposed by the independent auditor
- Conducts a post-audit review of the financial statements and audit findings, including significant suggestions for improvements provided to management by the independent auditor
- Reviews the performance of the independent auditor
- Reviews the independent auditor's fee arrangements
- Recommends appointment (or reappointment) of the independent auditor
- Monitors compliance with the organization's code of conduct and conflict-of-interest policy
- Reviews, with the organization's counsel, any legal matters that could have a significant effect on the organization's financial statements
- Review the findings of any examinations by regulatory agencies
- Review the policies and procedures in effect for the review of executive compensation and benefits
- If necessary, institutes special investigations and, if appropriate, hires special counsel or experts to assist
- Performs other oversight functions as requested by the full board

### Reporting Responsibilities

- Reports to the full board
- Maintains lines of communication with management, the independent auditor, and the internal auditor (including private meetings)

### Committee Organization In the charge, the governing board:

- Establishes the committee's size
- Lists qualifications for membership
- Suggests frequency of meetings

## Example of an Auditor's Opinion

*An unqualified or "clean" auditor's opinion as recommended by the American Institute of Certified Public Accountants:*

Independent Auditor's Report  
Board of Directors  
XYZ Nonprofit Organization, Inc.  
City, State

We have audited the accompanying statement of financial position of the XYZ Nonprofit Organization, Inc. (the Organization), as of December 31, 2013 and 2012, and the related statements of activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the XYZ Nonprofit Organization, Inc., as of December 31, 2013 and 2012, and the results of its operations and its cash flow for the years then ended, in conformity with generally accepted accounting principles.

Auditing Firm Name City, State  
April 21, 2015

*Source: National Center for Nonprofit Boards*

## Sample Donation/Gift Acceptance Policy

Acceptance of any contribution, gift or grant is at the discretion of the Library Board of Trustees. The Board will not accept any gift unless it can be used or expended consistently with the purpose and mission of the Library.

No irrevocable gift, whether outright or life-income in character, will be accepted if under any reasonable set of circumstances the gift would jeopardize the donor's financial security.

The Board of Trustees will refrain from providing advice about the tax or other treatment of gifts and will encourage donors to seek guidance from their own professional advisors to assist them in the process of making their gift to the Library.

The Board of Trustees will accept donations of cash or publicly traded securities. Gifts of in-kind services will be accepted at the discretion of the Board.

Certain other gifts, real property, personal property, in-kind gifts, non-liquid securities, and contributions whose sources are not transparent or whose use is restricted in some manner, must be reviewed prior to acceptance due to the special obligations raised or liabilities they may pose for the Board of Trustees.

The Board will provide acknowledgments to donors meeting IRS substantiation requirements for property received by the charity as a gift. However, except for gifts of cash and publicly traded securities, no value shall be ascribed to any receipt or other form of substantiation of a gift received by the Trustees of their representative.

The Board will respect the intent of the donor relating to gifts for restricted purposes and those relating to the desire to remain anonymous. With respect to anonymous gifts, the Board will restrict information about the donor to only those staff members with a need to know.

The Board will not compensate, whether through commissions, finders' fees, or other means, any third party for directing a gift or a donor to the Board of Trustees.

## Sample Donation/Gift Agreement Form

All prospective donors are encouraged to consult with their legal, tax and/or financial advisers before making a gift to \_\_\_\_\_ Library. The tax deductibility of gifts can be a complex issue, and the Library is not in a position to advise potential donors with respect to such matters.

The Library provides donors of property valued at \$250 or more with a written acknowledgment of the receipt of such property. The Library is not able to confirm the value of the property that has been donated.

Any donations of items valued at over \$5,000 for which donors intend to claim a deduction will need to be appraised by a “Qualified Appraiser”. The Library does not pay for such appraisals and is not responsible for reviewing or authenticating the validity of such appraisals. Donors should refer to Publication 561 [“Determining the Value of Donated Property” (available here [www.irs.gov/pub/irs-pdf/p561.pdf](http://www.irs.gov/pub/irs-pdf/p561.pdf))] to learn more about what kinds of appraisals are accepted by the IRS for tax purposes. All appraisals should be completed before the donor transfers the property to the Library.

In the event that the donor expects the Library to sign any forms related to the tax-deductibility of a donation of property (e.g., a form 8283), all such forms must be presented to the Library at the time that the materials are given to the Library. Forms presented to the Library after this point in time cannot be signed by the Library.

It is the Library's understanding that:

- in cases where a donor has created the materials which are being given to the Library, the amount of the charitable deduction that may be claimed generally would be limited to the donor's basis, or cost, of raw materials used (see Internal Revenue Code Section 1221), and
- to the extent a donor retains copyright in materials being transferred to your library (whether or not the materials were created by the donor), no charitable deduction may be claimed.

*(form continued)*

Donor: \_\_\_\_\_ Date: \_\_\_\_\_

Address: \_\_\_\_\_

Description of Donation: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

This Gift Agreement transfers legal title of the gift to the \_\_\_\_\_ Library.

\_\_\_ Unrestricted gift \_\_\_ Restrictions (please specify):

\_\_\_\_\_

\_\_\_\_\_

I have read the gift policy provisions of the \_\_\_\_\_ Library and agree that they are acceptable.

Donor Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Accepted for the Library by: \_\_\_\_\_ Date: \_\_\_\_\_

Library Director Signature

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**For restricted gifts only:**

\_\_\_\_\_ Date: \_\_\_\_\_

President of Library Board Signature

\_\_\_\_\_ Date: \_\_\_\_\_

Secretary of Library Board Signature

Date of Board Approval: \_\_\_\_\_