

Library Finance:

A Management Toolkit

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Budgeting and Revenue

“The budget is the central expression of how finite resources will be allocated, the terms of the annual ceasefire, as it were... between the competing claims of different advocates for more money.”- Virginia Held, as cited in Martin, 1978.

Introduction

In its most simple terms, a budget is a list of expenditures and revenues for a specified time period. While this definition sums up the most crucial facts, how much money to spend, what to spend it on and for how long, it oversimplifies the equation. A budget will also outline the given priorities of an organization, the plan to meet the operational goals of an organization and the future plans of that organization under the specific circumstances related to time and fiscal restraints. A budget is not just the divvying up of funds, but a careful examination of mission, priorities and a control mechanism for spending. The budget should also be prepared with an eye on the long term, or strategic planning of the library. The budget preparation process tends to be an ongoing and never ending part of the life of a library administrator. The process can also be political in nature, as competing interests and departments fight over limited funds. Staffing and user needs change, costs and funding levels fluctuate and unexpected expenditures leave deficits or wipe out surpluses. There is never a perfect solution to a budget, but by careful planning, awareness and oversight of the myriad factors, one can successfully navigate the process.

Form

Expenses for library operations can typically be divided into two parts: personnel costs and operating expenses. Personnel costs are the salaries and benefits of employees and consultants. Included in personnel costs are also the costs of retirement contributions, health benefits, and other employment costs that may or may not be paid

directly to employees. This category covers the total cost of human resources. Other expenses such as building maintenance, acquisitions or technology would fall under operating expenses. The most common type of budget used in libraries and government agencies is the line item budget. A line item budget uses departments as groups and shows amounts for previous years as well as estimates for the future (See Figure 1). The form of this budget seen in libraries is the incremental line item budget; this type of budget “makes all increases and decreases to the budget equal for all units on a percentile basis” (Linn, 2007). The shortcomings of this model are that it fails to account for changes in mission, differing rates of increase in materials costs or the effectiveness of some expenditures. Linn identifies a number of budget forms that attempt to accommodate these shifts (Program Based Budgeting, Performance Based Budgeting) but these have their own issues and shortcomings. Outside of political expediency and inter-departmental tension, performance can be difficult to quantify in a library (Linn, 2007).

Sample Line Item Budget Anytown Public Library FY02 Budget Request

2/26/05	Beginning Bal.	Expended	Beginning Bal.	Expended	Expended	Amount	FY02	
	FY00	FY00	FY01	FY01	ALL SOURCES	DEPOSITS	REMAINING	REQUEST
I. PERSONNEL COSTS:								
Director	\$31,364.00	\$25,600.00	\$31,364.00	\$20,252.22			\$11,111.78	\$31,827.00
Support Staff	\$13,684.00	\$13,617.00	\$18,757.00	\$11,126.26			\$7,630.74	\$26,706.00
TOTAL PERSONNEL COSTS:	\$45,048.00	\$39,217.00	\$50,121.00	\$31,378.48		\$0.00	\$18,742.52	\$58,533.00
II. OPERATING EXPENSES:								
Audio/Video	\$1,050.00	\$965.00	\$1,100.00	\$2,006.09	\$2,402.85		-\$906.09	\$1,500.00
Books	\$10,000.00	\$11,006.00	\$11,000.00	\$9,282.38	\$9,780.96		\$1,717.62	\$11,000.00
Building Maintenance & Supply-Routines	\$600.00	\$625.00	\$700.00	\$481.37			\$218.63	\$700.00
Cataloging & Mending	\$650.00	\$380.00	\$700.00	\$380.44			\$319.56	\$700.00
Cleaning Supply	\$200.00	\$20.00	\$100.00	\$0.00			\$100.00	\$100.00
Computer Software	\$250.00	\$0.00	\$250.00	\$29.30			\$220.70	\$250.00
Computer Supply	\$200.00	\$38.00	\$200.00	\$63.74			\$136.26	\$200.00

Figure 1 from *Massachusetts Public Libraries Trustee's Handbook*

In some organizations, there are controls that limit the amount of transferability between line items. Using funds allocated for one area to augment funds in another may require approval from the parent organization. This is one example of a control

mechanism. Managers or staff must adhere to policies regarding this. Knowing the budget related policies and procedures of the parent organization is essential to directors, management or department heads that have spending authority.

Budget Narrative

One of the difficulties facing library directors and management staff is the explanation of services to those outside of the library. Mitchell notes that this is “more difficult for libraries than for other public agencies due to the complexities of services rendered and the inability of library administrators to explain library services in lay terms” (1982, p. 39). A narrative, as part of the budget document, or as a separate document, can be used to explain requested increases or changes in the budget from previous years. Any explanation of the services rendered or changes in the operating budget can help to justify requests to those outside of the field. As return on investments in libraries is difficult to quantify, an explanation of services or any statistics that reflect user satisfaction or demand are helpful.

Expenditures

Library expenditures can be divided into two categories: personnel costs and operating expenses. As the sample budget from above shows, operating expenses cover a wide range of areas. The line item budget favored by libraries allows these expenditures to be broken down into classes, areas or cost groups that help to further identify and control spending. Information from the Association of Research Libraries, as cited by the Publishers Communication Group (2007) offers a breakdown of what percentages are allocated to this area. In the examples from these institutions, 46 percent of funds go to personnel costs. The remainder of expenditures is spread out over the range of operating expenses, with the bulk devoted to acquisitions. (See Figure 2.) Some flexibility can be found in the manner the operating costs are allocated to different cost

centers or categories, but personnel costs are often treated differently. Funds left over from unfilled positions may be required to be turned back over to the parent institution or used for specified staffing needs. Understanding and abiding by these policies is crucial for directors, managers and department heads.

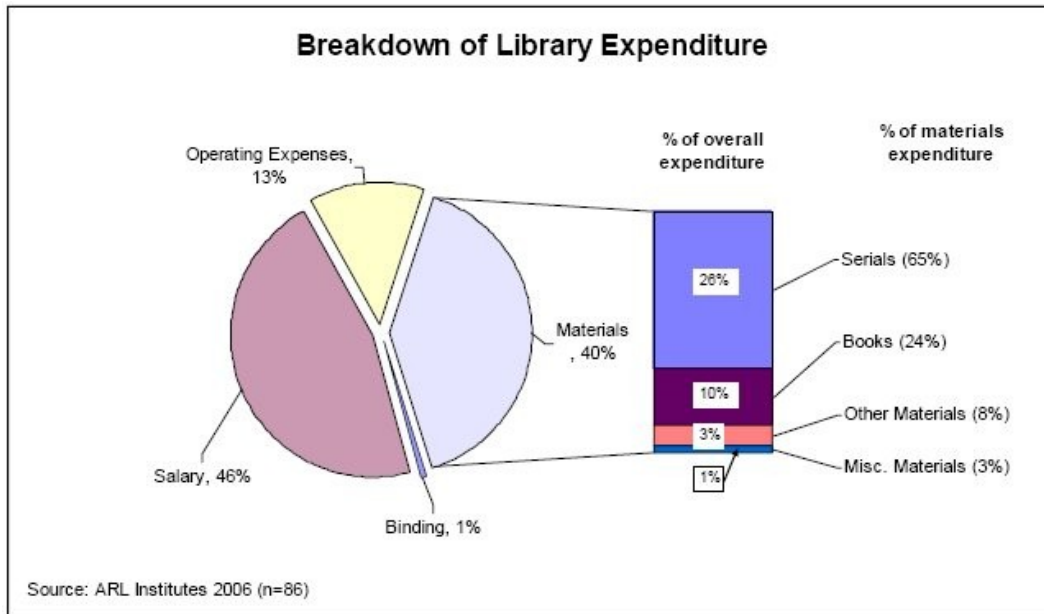


Figure 2 from Publishers Communication Group

Budget Planning and Preparation

Whether a public library, an academic library or a special library, budget planning involves the same steps and considerations. The first step in budget planning is an examination of the library’s mission, and how to best fulfill that mission. Evans identifies four key financial areas that must be addressed during the planning process: services and facilities to meet customer needs, the increasing cost of printed materials, electronic resources and staffing (2001, 19-20). While the previous year’s budget and expenditures offer a template or a guide for budget preparation, there are a number of internal and external factors that can cause a shift in allocations. An examination of the four factors identified by Evans can help address these issues. One method used in preparing a budget is to examine peer institutions to compare levels of revenue and

expenditures. For research libraries, ARL (www.arl.org) offers a range of statistics and standards showing revenue and expenditures for a range of areas. The Association of College and Research Libraries (ACRL) also offers guidelines for acquisitions, services and how funds are allocated to different services and resources (2004). Similarly the Public Library Association has comparisons to other similar institutions. These are not a replacement for internal evaluations of services, but they can offer standards and references points to aid in the allocation of funds. Part of the planning process involves trying to anticipate changes in funding and expenses. Database access and the cost of serials can increase beyond the expected rate of inflation, and funding can change. Being aware of these factors is essential to adequate planning.

Revenue

The vast majority of revenue for a public or academic library comes from the parent institution, whether that is a municipality or an academic institution. In both circumstances, libraries are competing with other units for a finite supply of revenue. The director or management of the library is placed in the position of advocating for an appropriate level of funding to complete the mission. Declining tax revenues or expiring tax levies can drastically alter the revenue picture for a public library. Recent events, such as the Jackson County library closings, illustrate the perils faced by the uneven revenue stream from tax dollars. While funds from other sources, such as friends groups, grants, endowments or donations are an important source of revenue for libraries, the amounts from these sources are limited and subject to fluctuation. Revenues from a college or university are often more stable, but changes in enrollment and other institutional costs can affect what is designated for the library.

Budgeting and Revenue Resources

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Fundraising

Introduction

It's easy to see how more money (fundraising) can benefit any library. Aside from the obvious benefit, the library manager should approach fundraising as an effort to diversify funding and escape dependency on a single funding source. In 2005 the American Library Association had to advocate for a public library system in Texas to remain open after tax initiatives to support the library were voted against 3 times (Coffman, 2006, p. 26 - 27). Private institutions can also find themselves in a bind when donors stop giving or endowments run dry. In order to not get the funding rug pulled out from under them, all libraries need to find ways to diversify their funding.

Friends of the Library

“Libraries have fallen on tough financial times since, well, since forever.” (Herring, 2004, p. 23). Herring goes on to argue that not enough patrons are aware of the crisis of increasing library costs and decreasing budgets. Friends groups can provide libraries with two benefits: increased funding and increased public awareness of services. Friends of the Library can raise funds through advocacy, membership fees, fundraising events, and building relationships with local businesses and philanthropic organizations.

Raising Funds with Friends Groups a How-To-Do-It Manual for Librarians is a comprehensive resource for managing friends groups and their activities (Herring, 2004). It highlights the importance for goal setting, planning, picking the right leader for the friends group and managing volunteers. Friends of the Library U.S.A. (FOLUSA) is a non-profit organization that provides resources, training, consulting, networking and support for groups in libraries of all types. Local friends groups can join the listserve or become members to enjoy toolkits and further resources designed for the startup and maintenance of library friends groups.

While most commonly associated with public libraries, academic libraries also make use of these groups to raise funds. Zauha and Wycoff state in an article for the PNLA Quarterly, "Forming an active friends group can help the academic library focus community attention on its resources and programs in ways that its day to day functions cannot." (2000, ¶5). Also, FOLUSA has a fact sheet dedicated to developing an academic library friends group on their website (2008, Fact Sheet 4).

Leadership. In *Raising Funds with Friends Groups a How-To-Do-It Manual for Librarians*, Herring emphasizes the necessity for the library director to be the leader of the friends group (2004, Chapter 1). While a friends group should be able to make decisions and be self-maintained, it needs the library director to set monetary goals and prioritize initiatives. "No one knows better what the library needs than its head, the person in charge." (Herring, 2004, p. 19). FOLUSA provides training on best practices for leading and managing friends groups.

Advocacy/Public Relations. Friends groups often emphasize advocacy and public relations as part of their function. Naturally "if a library can't convince the local community of its value, there's little hope it can convince outside donors" (Dimattia, 2006, p. 25). The American Library Association offers an Advocacy Institute for library managers who are beginners in this area.

Grants

For every type of library, program, project or collection there is a grant. Librarians should not have much trouble putting on their research caps to find these grant funding sources. Places to start looking would be professional associations and/or federal, state or local government institutions. Government groups such as the National Endowment for the Arts and National Endowment for the Humanities often grant money to libraries. There is also the *Big Book of Library Grant Money*, a yearly publication by ALA that lists and profiles institutions that grant money to libraries (2007).

Once a library identifies the grants that it will apply for it will need to follow the proscribed, tedious procedure to apply for the grant. ALA has published guidelines for grant writing. Webjunction provides formalized training courses on grant writing. The Institute of Museum and Library Services (IMLS) offers handbooks and links to other online sources to support successful grant funding to libraries.

Project management. Grants are typically tied to new library programming, equipment or collections that require multiple funding sources. The library manager must determine how the grant fits in with the larger project and have a plan to follow if the grant is not awarded. The Institute of Museum and Library Services publishes monthly Project Profiles, on their website, that outline successful fundraising projects involving grants. The library manager should not develop tunnel vision around a single grant as a funding source and be diligent in finding a variety of funding sources for each project.

Private Gifts

Hogan describes the process of donor cultivation in her 2006 article *Around the Fundraising Campfire*. It begins with philanthropic research. What is the affiliation, capacity for giving, and their interest level in your institution? (Hogan, 2006). Some good research starting points are the Foundation Center and Charity Navigator websites. The next step is to ask for the money. This step also involves marketing the library services by using what's-in-it-for-me language with the donors (Holt, 2007, 124). The final step is to get the donor involved with the library by keeping them up to date on the impact that their gift has had or involving them more in your organization. Hogan also recommends having at least three prospects in each stage of cultivation.

Marketing. DiMattia details building a "Case for Support" for library fundraising initiatives (2008, p. 23-24). The success of this case relies on trust from donors that their gift will get a positive Return on Investment (ROI). Holt suggests that libraries perform Cost Benefit Analysis (CBA) to determine what library services are

valuable to the community and how those benefits can be translated in to dollars (2007, p. 120-121). Marketing to increase the public awareness and value of the library is more critical than marketing to increase library use when fundraising.

Relationship building. Wilson interviewed two library fundraisers to determine best practices when fundraising for academic libraries (2005). The theme of relationship building can be applied to securing additional funds for all types of libraries. One library fundraiser described his fundraising techniques as “empathy, enthusiasm, creativity, friendly persuasion, sincerity, persistence, and responsiveness.” (Holt, 2005, p. 192). These techniques take time to develop and may be difficult to master for a manager that is new to fundraising. ALA has published a bibliography on hiring a fundraising consultant for managers that need support and an extra hand (1997).

Fundraising Resources

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Financial Statements

Introduction

Managing finances is the least glamorous part of a library manager's job. Learning how to create and analyze financial statements help the manager "really understand the financial condition of the [library]" (McNamara, 2008, ¶ 1). If a library manager is fortunate there may be another financial manager or automated systems that handle a majority of the bookkeeping and creation of these statements. The practice of creating statements and what information goes in them will be determined by established practices and policies of the parent institution. However, understanding the basics of financial statements will help a library manager do more than just report on the numbers. Done right, financial statements can be used to demonstrate the responsible use of funds, secure funding and perhaps increase funding.

Types Financial Statements

Nonprofit organizations must adhere to certain requirements made by the Financial Accounting Standards Board (FASB). The FASB requires three types of financial reports for auditing purposes. These are also commonly referred to as the three basic types of financial reports for any type of organization. The Alliance for Non-Profit Management has an on-line FAQ sheet that defines each report in more detail and shows sample reports (2008). The online *Basic Guide to Non-Profit Financial Management* (2008) by Carter McNamara provides links on how to create these reports.

Statement of Financial Position (Balance Sheet). Typically done on a monthly basis this is a statement showing the organization's net assets by subtracting the liabilities from the assets. Assets are cash, buildings and equipment (Alliance, 2008). Liabilities are debt such as accounts payable and mortgages (Alliance, 2008). This is a bottom line statement of what the organization owns at a given point in time. It is important for

determining the financial health of the organization.

Statement of Activities (Income Statement). This statement shows how much money you earned and how much was spent (McNamara, 2008, Financial Statements ¶ 2).

Monitored regularly, this report can show trends in how efficiently the organization is using its budget. This statement should be organized in the same fashion as the line item budget so that direct comparisons can be made. Often, budgets are re-evaluated several times during the financial period and this statement will aid in decisions to reallocate money in to priority areas. This type of statement can also be used to demonstrate fiscal responsibility to stakeholders outside of the library.

Cash Flow Statements. The purpose of the cash flow statement is to examine the sources and uses of cash during the reporting period (Hagen, 2005, ¶ 1). This helps the manager keep track of the flow of cash through the organization so they can make sure they have enough money to keep on top of the bills (McNamara, 2008, Managing Cash Flow ¶ 1). Grants or other funding sources may have release timelines associated with them and this report can help track the flow of those funds in to the library.

Analysis of Financial Statements

Warning! Before conducting a financial analysis the librarian should meet with a certified accountant or financial manager within the organization if this is available.

There are also training courses provided by Webjunction on both Financial Management and the Principles of Financial Statements. The terminology takes time to become familiar with and decisions based on faulty assumptions and interpretations can be dangerous.

The most useful financial analysis will come from comparing financial statements to the library budget and other libraries of a similar type and/or size (Smith, 2002, p. 233). In order to make accurate comparisons the financial statement should be formatted in a similar way to the library budget (Hoogcarspel, 1991, p. 31). The key to accurate financial analysis is to compare like things. The time period, accounting

methods and the way costs are divided among activities must be the same or the analysis will not be accurate.

Financial Statement Resources

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Financial Auditing and Accountability

Why Audit?

Librarians as a whole generally have good intentions. As the heroic librarian character, David Goldberg, in Larry Beinhart's book, *The Librarian*, explains, "Librarians don't have a lot of status and we don't make a lot of money, more than poets, but not so much, say, as your more successful panhandlers, so our ideals are important to us and the love of books and the love of knowledge and the love of truth and free information . . ." As a library manager you might be hard pressed to imagine any of your dependable staff stealing from the library. However, although you might justify poor financial oversight as trusting your employees, you might actually be creating an environment that is unnecessarily tempting and that enables crimes of opportunity. As Leonhardt (2002) explains, a crime of opportunity might occur, when, for instance, acquisitions or fine monies are not properly reconciled and the employee realizes that no one will know if money or supplies disappear. Unfortunately, although such crimes are rare, they do occur. For instance, in 1997, Mary Joan Byrd, a Portland State University circulation supervisor, embezzled approximately \$221,000 in library copier fees to feed her video poker addiction (Trujillo). In 2005, also in Oregon, a part time library worker "stole more than 1,000 library books, CDs and videotapes from libraries in Clackamas and Washington counties and sold them on the Internet" ("Oregon man . . ."). A similar crime of reselling library materials online with losses totaling more than \$75,000 was reportedly perpetrated in 2006 at Texas Tech University by a regular night shift work study student (Blackburn 2006).

Types of Audits

The words "financial audit" can cause even seasoned librarians to feel afraid. Contrary to popular opinion, however, most auditors are not out to punish well-

meaning people for their clerical errors; nor are they seeking to publicly embarrass institutions for their poor accounting practices. The unannounced forensic audit most commonly dramatized on television is rare and can usually be avoided with a preemptive internal audit. Many organizations choose to create a timetable for recurring internal audits or choose to arrange for an audit following substantial changes in personnel or institutional reorganization (Leonhardt 2002). According to Arlita Hallam and Theresa Dalston (2005) in *Budgeting Basics for Libraries*, "Library directors are required to complete an annual report for the governing agency and to their constituency" (p.59). When compiling statistics for the annual report, it is an ideal time to also perform an annual internal audit. In an internal audit, the library either appoints someone on staff, frequently the director, to review its financial statements and to look for any possible discrepancies (called a self-audit), or it hires a professional auditor (Snyder 1999). Think of the latter as hiring a financial coach to help an organization improve its fiscal procedures.

Accountability

Although it is important to do have good financial oversight in order to prevent and identify library embezzlement as soon as possible, there is another and even more compelling reason to perform regular audits. Quite simply, you need to know where your library's money is going in order to be a wise steward of that money. Whether you are publicly or privately funded library, you as a manager have been entrusted with a budget. If you use your budget well and can properly document your financial practices, then you can defend your right to be entrusted with additional taxpayer or company money in the future. In addition, you will also feel assured that you and your employees are doing the best possible job for your patrons with what you have been given. One even more practical reason to audit: many grant funding agencies including the federal government require solvent financial statements from a grant applicant and will not give any money to organizations that have not been audited (Snyder 2006).

Auditing Standards

As librarians, we typically value controlled vocabulary or at least recognize that without standardized systems, such as the Dewey Decimal System or the MARC record, objects and information are harder to retrieve and share with one another. In the same way, Generally Accepted Accounting Principles (GAAP) proscribes a standardized way of reporting finances. GAAP allows auditors to compare similar organizations to one another, see the library's place within its larger organization, and understand and track the library's money flow over time. Auditors generally do not need to analyze finances document by document. Instead, they can cherry pick a few representative documents and easily get a clear picture of an organization's financial health by looking at how in-line with GAAP those documents are (Snyder 1999).

Before an audit, library managers should do their best to familiarize themselves with GAAP and make sure that they are already somewhat in line with GAAP. If you are unfamiliar with GAAP, you can take classes offered through WebJunction (<http://www.webjunction.org/budget-finance>) or check out some of the other resources listed below. The Governmental Accounting Standards Board (GASB) has also published formal procedures for library audits in *Audits of State and Governmental Units* (Hallam & Dalston 2005).

Preparing for an Audit

There are several things to keep in mind when preparing for a professional audit. First, some accounting firms don't audit nonprofits. Therefore, if you work for a nonprofit library, check with other libraries in your area or with your local United Way for referrals to accounting agencies that audit nonprofits (Snyder 1999). Secondly, professional audits can be expensive, typically costing \$2000 or more, so shop around for bids. It's wise to negotiate the price; be sure to ask for a discount based on your nonprofit status if possible (Snyder 1999). When you have scheduled an audit for your library, meet with staff and reassure them that the process is not trying to incriminate

anyone. Encourage staff to work with auditors and to ask questions in order to better understand their responsibilities and improve the library's financial routine (Leonhardt 2002).

Managing an Audit

When you meet with staff before an audit, familiarize them with the process. Explain that the auditor will most likely want to track a few items all the way through the system from purchase to place on shelf and invoice payment, and to check on the staff accountability and safeguards that you have in place. In asking your staff to undergo scrutiny, it is especially important that you remove as many barriers as possible for your staff – that is, attempt to do the work to make sure that safeguards are in place before the auditor arrives so that staff will have less to fix later. It is also important to emphasize that you want staff to be honest and listen to an auditor's suggestions as they might be naturally inclined to want to make the organization appear better than it actually is, which would undermine the effectiveness of the auditor's ability to make accurate observations and suggestions (Leonhardt 2002).

After an audit, there will typically be an exit interview to discuss the concerns of an auditor and make sure you understand his or her suggestions. When a professional auditor offers an opinion at the end of your audit, if he or she finds no discrepancies, then the opinion is "unqualified" – a "qualified" opinion typically indicates that the library needs to make substantial changes to its changes to its procedures or financial reporting (Hallam & Dalston 2005). Finally, after the audit, don't forget to praise your employees and address any changes that will need to be made at that time (Leonhart 2002s).

Library Audit Resources

OCLC Online Computer Library Center (2008). Budget & finance. Webjunction.

Retrieved October 1, 2008, from <http://www.webjunction.org/budget-finance>

Government Auditing Standards (2003). <http://www.gao.gov/govaud/ybk01.htm>--
standards for auditing government funded grants

GASB. Industry Audit Guide, Audits of State and Governmental Units, revised. This publication may be obtained from the American Institute of Certified Public Accountants, Inc., P.O. Box 2209, Jersey City, New Jersey 07303-2209.

Library of Congress Financial Statements <http://www.loc.gov/fsd/fin/>

Auditing Terminology

Sarbanes-Oxley Act

Public Company Accounting Oversight Board (PCAOB)

Financial Accounting Standards Board (FASB)

Governmental Accounting Standards Board (GASB)

American Institute of Certified Public Accountants (AICPA)

Statements on Auditing Standards (SAS)

International Accounting Standards Board (IASB)

Generally Accepted Government Auditing Standards (GAGAS)

Generally accepted accounting principles (GAAP)

National Association of State Boards of Accountancy (NASBA)

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Unprecedented scheme called stunning betrayal. *The Lubbock Avalanche-
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in your library*. Chicago : American Library Association.
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Library Administration & Management, 13(3), 144-146.
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embezzlement. *The Oregonian*.