

Chapter 9: Library Funding, Finance and Budget

It is essential for library trustees to:

- Be familiar with their budgetary powers
- Know where the money comes from
- Understand the budgeting process
- Determine the level of funding needed by the library
- Work to secure the needed funding
- Approve an annual library budget

The library director is a partner with the library board on financial issues, and is responsible for communicating needs and proposing the budget to the board.

Budgetary Powers of Library Boards

Library boards typically have a great deal of power over the library budget. Most library ordinances authorize control of the library budget by the board of trustees including the authority to approve expenditures and to move funds from one line item to another. It's important to be familiar with your library's ordinance because this is the law for your library. It's also important because library ordinances vary from community to community. Compare the excerpts from the sample ordinance below to your library's ordinance.

The board shall have and exercise the following powers and duties:

Section 6, Powers and Duties, subsection 9: "To have exclusive control of the expenditures of all funds allocated for library purposes by the council, and all moneys available by gift or otherwise for the erection of library buildings, and of all other moneys belonging to the library including fines and rentals collected, under the rules of the board."

Section 6, Powers and Duties, subsection 10: "To accept gifts of real property, personal property, or mixed property, and devises and bequests, including trust funds; to take the titles of said property in the name of the library; to execute deeds and bills of sale for the conveyance of said property; and to expend the funds received by them from such gifts, for the improvement of the library."

Section 9, Library Account: "All money appropriated by the council from the General Fund for the operation and maintenance of the library shall be set aside in an account for the library. Expenditures shall be paid for only on orders of the board, signed by its president and secretary."

Please note:

(a) Having a library account can be accomplished by establishing a separate subsidiary fund within the City's General fund. Separate bank accounts are allowable, but not required.

(b) The library board's powers cannot be changed without an election. As stated in Iowa Code 392.5, "*A proposal to alter the composition, manner of selection, or charge of a library board, or to replace it with an alternate form of administrative agency, is subject to the approval of the voters of the city.*"(change in the 2013 language)

Iowa Library Services recommends that the city do the financial accounting, write checks for the library's expenditures after authorization by the board and submit monthly financial reports to the board. Regardless of how your library handles the financial accounting and paying bills, it is important to understand that the city has a responsibility to account for all income and expenditures as stated in the Iowa Code, (see below). **While the library board has the authority to decide how library funding is spent, it still needs to report all income and expenditures to the city.**

Iowa Code 384.20 SEPARATE ACCOUNTS.

"1. A city shall keep separate accounts corresponding to the programs and items in its adopted or amended budget...

2. A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation..."

City and County Library Funding

Both city and county support of public libraries is mandated by Iowa Code section 256.69, which says, "...Each city within its corporate boundaries and each county within the unincorporated area of the county shall levy a tax of at least six and three-fourths cents per thousand dollars of assessed value on the taxable property...for the purpose of providing financial support to the public library which provides library services within the respective jurisdictions."

In other words, a tax of at least \$.0675 per \$1,000 assessed property valuation must be levied by each county and city to provide financial support to the public library which provides them with library service. The tax of at least \$0.0675 per \$1,000 of assessed property required by the Code is an outdated and inadequate minimum. No public library in Iowa could keep its doors open if it were funded at this level. Most cities fund their libraries far above the minimum required by the Code.

Public libraries receive their primary funding from the city's General Fund which is raised by levying property taxes. In Iowa, there is a cap on the amount a city may levy for the General Fund of \$8.10 per \$1,000 of assessed property valuation. Approximately 80% of Iowa cities are at this limit and therefore, additional revenue comes only from increased valuation of property or from special levies such as the special library levy described in the next section.

Your library may also receive funding from nearby cities that don't have their own library. To meet the requirements of Iowa Code section 256.69, these cities contract with a library to obtain library services for their residents.

Public libraries are also funded from the county's rural services fund which includes road clearing, weed eradication and sanitary disposal. The maximum levy for rural services is \$3.95 per \$1,000 of assessed value in the unincorporated areas.

Funding Disparities

There may be significant disparities between your city and county library funding. The chart below illustrates the statewide disparity.



If you find a similar disparity for your library, work with your library director to approach the county for increased funding. The same is true with contracting cities (cities that contract with your library for library service). Your city may be funding the library 10 times more per capita compared to what a contracting city is paying per capita.

The Commission of Libraries, the Iowa Library Services' governing board, encourages public library boards to address funding disparities for the following reasons:

- Adequate funding is essential for providing high quality library service
- All Iowans should provide equitable financial support for library service
- It is not equitable for one group of Iowans to pay one rate for library service while another group gets the same service for a substantially discounted rate

Special Library Levy

The special library levy (also called the 27 cent levy) is a potential source of additional funding for public libraries allowed by the Iowa Code, section 384.12 (2). It allows cities to levy an additional tax of up to \$0.27 per \$1,000 assessed property valuation in order to provide better library service. There is a petition and referendum required to pass the levy. The levy must be passed by a simple majority in order to be enacted. The odds of passing the special library levy are very good. Out of 9 cities that had the levy on the ballot in 2013, 6, or 66%, passed the levy.

The levy question is put on the ballot in regular city elections, held in odd numbered years. Detailed information about the special library levy is available at

<http://www.statelibraryofiowa.org/ld/funding>

State Funds

Public libraries receive state funding through the **Enrich Iowa** program which includes Direct State Aid, Open Access and Interlibrary Loan Reimbursement. The funding for Enrich Iowa is appropriated by the Iowa Legislature and approved by the Governor.

Direct State Aid is distributed to public libraries based on meeting the standards in *In Service to Iowa: Public Library Measures of Quality*. The three part formula includes:

- Base amount (\$1,000, \$2,000 or \$3,000) depending on whether the library meets Tiers 1, 2, or 3 of the standards
- Per capita amount (\$0.20, \$0.40 or \$0.60) depending on whether the library meets Tiers 1, 2, or 3 of the standards
- Three percent (3%) of the amount of funding received by the library in the previous year for service to rural residents and to contracting communities (The percentage is the same for all tiers.)

However, because the Direct State Aid program has not been fully funded by the State of Iowa, libraries receive a percentage of the amount they would receive with the formula.

Open Access is a reciprocal borrowing program which enables library customers from a participating library to check out materials, in person, free of charge, at over 600 Iowa libraries participating in the program. Libraries participating in Open Access are subsidized by Iowa Library Services for each item loaned to a nonresident user. Open Access funding supplements, not replaces, local funding.

Interlibrary Loan Reimbursement is a program intended to provide Iowans equal access to library resources by encouraging and supporting resource sharing among different types of libraries. The program, administered by Iowa Library Services, pays a subsidy for each item loaned to eligible Iowa libraries. Interlibrary Loan Reimbursement funding supplements, not replaces, local funding.

Federal Funds

Through the Grants to States program, the Institute of Museum and Library Services (IMLS) provides federal Library Services and Technology Act (LSTA) funds to state libraries, including Iowa Library Services, using a population-based formula. In Iowa, LSTA funds are used primarily to support statewide library development initiatives and services such as: the annual summer library program; building the skills of library staff in order to better serve Iowans; statewide access to online reference databases such as EBSCOhost and FirstSearch; interlibrary loan network through State of Iowa Libraries Online (SILO); Iowa Center for the Book; standards for public libraries.

Community Foundations

Iowa Community Foundations are tax-exempt charitable organizations created by and for Iowa communities to give people a way to give financially to their communities. There are approximately 115 covering all parts of the state. Community foundations:

- Are local organizations with deep roots in the community
- Offer personalized service tailored to each individual's charitable and financial interests.
- Help people invest in the causes they care about

A number of public libraries already apply for **grants** from their community foundation. This is a good practice, but consider taking it a step further. Your library board could also **establish a fund(s)** within your community foundation. The potential benefits of are:

- They provide a vehicle for donations
- The library doesn't have to go through the process and expense of establishing its own foundation
- With the competition for city funding, a community foundation fund can be a source of library funding over the long term
- Administrative services including funds management and reporting are handled for the library (Community foundations charge an administrative fee of between 1-2%.)
- Can accept a wide variety of assets, and can facilitate complex forms of giving

For each fund there is a written agreement which states the fund's particular purpose, who makes decisions about the fund and how the funds are disbursed. Ask about setting up your fund(s) so that the library board makes decisions about the fund and how the funds are disbursed.

Be aware that the community foundation is legally responsible for the funds and may request brief reports from the library to make sure the funds are being used in accord with the stated purpose. You will also want to keep in mind that endowed funds are intended to exist in perpetuity, and may implement **an annual spend rate not to exceed 5 percent**. If you are raising funds needed for a project taking place in the next few years, such as a building project, you would not want to tie up your funds in an endowed fund.

Learn more about your community foundation at <http://www.iowacommunityfoundations.org>

Library Foundations

When a library foundation is established, it becomes a vehicle for gifts, bequests, memorials, fund-raisers, capital campaigns, etc. The library foundation functions as a separate entity and can attain 501(c)(3) status from the Internal Revenue Service. Gifts to this foundation are tax deductible to the donor. One factor which makes setting up a foundation extremely attractive is that many donors such as corporate foundations will give only to organizations that have 501(c)(3) status.

Of course, the library board may also accept monetary gifts and bequests without establishing a foundation. In order to earmark the funds, and demonstrate compliance with the terms of the gift, the board will need to ask the city to establish a library trust account. See "Trust Accounts" section for additional guidance. Gifts or donations made directly to a public library are also tax deductible. Any income the library receives directly must be reported to the city because of its responsibility to account for all income (and expenditures) as required by Iowa Code section 384.20.

A helpful publication is *Forming and Funding Public Library Foundations* 2nd edition, by Faye Clow, former director of the Bettendorf (Iowa) Public Library Information Center, and updated by Benjamin Goldberg. It may be borrowed from Iowa Library Services or is available for purchase from the Public Library Association in care of the American Library Association.

Friends of the Library Groups

A Friends group can help raise funds for special library projects. Friends groups are excellent at attracting publicity and encouraging good public relations and good will for a library. A foundation, described above, may act as a Friends group.

The Association of Library Trustees, Advocates, Friends and Foundations (ALTAFF) website is a good source of information, particularly their Fact Sheets, <http://www.ala.org/united/friends/factsheets>. Another resource is *Friends of Libraries Sourcebook*, published by the American Library Association and available to borrow from Iowa Library Services.

Private Grants

Private foundations, businesses and corporations may award grants to assist local libraries with programs, services or building projects. Many times the grants are from local or regional organizations or businesses that wish to give something back to their communities. *The Foundation Directory* is printed yearly and is a source for private grant information. More information about grants is available on Iowa Library Services' website, <http://www.statelibraryofiowa.org/ld/funding>

Budgeting Process

Throughout the budget process, boards and directors must:

- have the money to spend
- have the authority to spend it
- be accountable for the spending

Boards and directors need to anticipate how much money they expect to receive from **all revenue sources**. Even gift money and memorials have to be estimated and budgeted before the money can be spent. This all has to happen within the framework of the city's budget process. Revenue from all sources should be reflected in the library's budget documents before the board proceeds with spending.

The budget process serves three basic purposes:

- Accountability:** In their stewardship role, the trustees have a fiduciary responsibility to use public funds wisely and in compliance with applicable laws, regulations, contracts, etc. This includes spending the funds needed to provide library services to the community, planning for future needs such as equipment replacement but not hoarding funds or "saving for a rainy day."
- Decision-making:** The trustees need accurate, timely, and reliable information to make effective decisions.
- Openness:** The public has a right to be informed about the financial conditions and operations of the library.

Library Budget Calendar

The fiscal year for Iowa cities, including the library, is July 1 through June 30. Following is the city budget calendar.

July 1: The budget process for the next fiscal year begins shortly after the beginning of the current fiscal year; in the course of doing the library annual report, the library director should gather information for the trustees to review in developing the budget. Some questions trustees should ask are:

- Did more people use the library this year?
- Are people using the library in different ways?
- Were the prior year's line item costs accurate?
- Is there a need for more programming?
- Have there been requests for new services or technology?
- Are there better ways to serve the community through the library?

August-November: The library director is responsible for drafting the budget request and the board of trustees is responsible for the final approval and adoption of the budget request before it is sent to the city council. Items to consider when setting the budget request include:

- reviewing the plan for the library
- projecting anticipated expenditures
- deciding library priorities
- projecting anticipated revenues

Part of the anticipated revenue includes the amount of county funding the library will receive. Trustees are responsible for requesting funds from the county supervisors. Depending upon the county, the request may be made by each library board in the county, or by a representative of the county library association.

December-January: The library trustees and director, present the budget request to the city council. The city sets the criteria for what the presentation will include, and library budget requests usually proceed through city budget schedules. Although library budget requests are subject to many of the same guidelines as other city departments, the city has authority to approve only the bottom line amount. Trustees have line item control, and determine staff salaries and other individual parts of the budget.

January-March: The city council holds budget work sessions and adopts a final proposed budget. Hearings for adoption are held and the budget goes to the county auditor in March for certification.

July 1: The certified budget takes effect.

Budget Management

Financial Reports

The library director should provide trustees with monthly financial reports which review:

- current list of bill
- year-to-date figures
- total budget
- balance of budget
- explanation of major changes

Since no library funds may be spent except by motion of the board, the trustees need financial reports (including bills) in advance in order to be prepared to question them and vote on them at the board meeting. Invoices and bills approved by the board and signed by the designated board authorities (usually the board president and secretary) are then sent to the city clerk for payment. A copy of the monthly financial report may be included with the invoices for informational purposes.

Monitoring the Budget

While the board should delegate the power to purchase materials, supplies and other goods to the library director, it should be aware of all purchases and monitor the budget monthly throughout the year. When reviewing the financial reports, look for yearly patterns of expenditures, such as energy bills in the winter, special program costs such as those associated with summer library programs and purchases of supplies and materials that occur once or twice a year.

Compare budget figures with actual amounts:

- Is the income as you expected?
- How do actual expenditures compare with budgeted amounts?
- Are there funds not being spent?
- Are there unusually high and low expenditures?

If there are variations you don't understand, ask the library director to explain them. Depending on the information you receive, the board may need to adjust and/or amend the budget. The majority of Iowa library ordinances allow the library board the authority to shift funds from one line item to another as needed. The library may need to coordinate an amendment to the city's certified budget as discussed below.

The library and city finance officer should monitor the library appropriation to ensure sufficient funds are available prior to board approval of library disbursements or expenditures and to ensure timely amendment to the certified budget, if necessary.

Amending the Certified Budget

The library may spend only the amount budgeted within one fiscal year. However, sometimes during the budget year there is unexpected revenue that the library wishes to spend. If the library receives additional income from any source, it cannot be spent unless the certified budget is amended to include this additional income. No city department, including the library, should spend more than has been budgeted for its department unless the certified budget is formally amended by the city council.

Most cities routinely amend their certified budgets and library budget amendments, if any, should be included in these amendments. Amendments must be approved and published by city officials before May 31 of the current fiscal year, the statutory deadline for city budget amendments.

The city clerk or city budget manager should be consulted to determine the date when the library's amendment must be submitted for inclusion in the city's amendment hearing. A legal form for requesting an amendment will be provided by the city.

Trust Accounts

Iowa Code 384.3 states that all money received for city governmental purposes from taxes and other sources "must be credited to the general fund of the city, except those monies received for the purposes of...trust and agency funds...." Funds unused by governmental agencies at the end of the fiscal year (June 30) may revert to the general fund of the city. Funds remaining in the library account at the end of the year will revert unless the city has given authority to the library board to carry over the funds in the library account or unless the funds are designated to a trust account.

A trust account may be established for funds being saved for a particular project; if there is no purpose for the trust account other than accumulating money, the trust account may not be allowed. The library board, working with the library director, should plan for unexpected funds: Is there a need for an addition or new building for the library? Is new shelving needed? Are more computers needed? Does the library intend to automate or purchase a different automation system?

One of the biggest mistakes a library board can make is to not have plans for unexpected funds. It is not unheard of for Iowa libraries to have funds diverted from the library to the city's General Fund because there were no plans for the funds and no encumbrances, or trust accounts established.

The money in a trust account:

- will carry over from year to year until the purpose for which it was established is accomplished
- is not to be used for day-to-day operation of the library unless the trust provides, such as an endowment trust
- will not revert to the city General Fund
- will be expended only by a motion of the library board and only for the purpose specified in the trust, such as the "library building project."

There are different types of trust accounts. A gift that allows the Library to spend both principal and interest would be accounted for in a "Special Revenue Fund, Expendable Trust" account. A gift that allows the Library to spend only the interest but not the principal would be accounted for in a "Permanent Fund."

If the library has plans for year end funds, the board should request that the city council pass a resolution to authorize carryover of the fund balance or establish a trust account. The resolution should indicate, among other things, the title of the trust, the purpose of the trust, and whether the interest on the fund is to be added to the trust. The city council then passes a resolution establishing the library trust account to accumulate funds for a planned purpose or project.

A word of caution: Gifts and donations given to a public library must be retained and accounted for by the public library. These gifts and donations are “public funds” upon receipt by the public library and may not be simply turned over or given to another private organization such as a library foundation.

Petty Cash Funds

Generally, petty cash funds are established for the payment of relatively small expenditures such as postage, deliveries or urgently needed supplies. Payment by check is not always possible or practical, so petty cash funds are established on an *imprest* basis to handle these small purchases. The Governmental Accounting, Auditing and Financial Reporting, (GAAFR) definition of “imprest account” states in part that this is “an account into which a fixed amount of money is placed for minor disbursements....”

As a public agency, the library’s internal control over the petty cash fund is important and should be conducted openly. The petty cash should be placed in the custody of a specific employee who is authorized to disburse the fund in accordance with stipulated restrictions as to maximum amount and purpose. The following recommendations should be considered regarding petty cash funds:

- The petty cash fund should be established by Board action. The Board should approve a policy to authorize the maximum amount of the petty cash fund, the types of allowable disbursements, the method and frequency of replenishment and the authorized custodian.
- On a periodic/monthly basis, the petty cash fund should be balanced and replenished by check to the original established amount.
- All cash received or collected by the library should be recorded as a receipt and deposited in the bank. It is not acceptable to replenish petty cash with miscellaneous library receipts such as fines or copy fees.
- Petty cash funds should not be used to cash personal checks.
- Payment receipts should support petty cash payments. For example, these could include postage receipts, cash register receipts or other documentation to explain the petty cash item that was purchased or paid for.

Gifts and Memorials

Boards and directors need to anticipate how much money they expect to receive from ALL REVENUE SOURCES. Even gift money and memorials have to be estimated and budgeted before the money can be spent. This all has to happen within the framework of the city's budget process. Revenue from ALL sources must be reflected in the library's budget documents before the board can proceed with spending.

Encumbrances

An encumbrance is a purchase order or contract entered into by the library before the end of the fiscal year for goods and services not yet received. For example, a set of encyclopedias ordered for the library in June, but not delivered until after July 1, would be an encumbered obligation. The funds set aside in the budget for the encyclopedia would carry over to the next fiscal year because the obligation for the order was encumbered (or made) before the end of the fiscal year.

Audits

Each city in Iowa with a population of over 2,000 must be audited annually; cities with a population of 700 to 2,000 must be audited once every four years; cities having a population of under 700 may be audited, but are not required to have an audit.

As part of the city's audit, the library may be asked to provide financial records. Some Iowa libraries have an audit done simply as a safeguard of the library's finances. Also, a city audit including the library, may be required if federal funds in excess of \$300,000 have been disbursed or expended during the fiscal year.

Library Budget: Roles and Responsibilities of the Director, Board, and City

| Library Director | Library Board | City Council and Mayor | City Clerk or Administrator |
|---|---|--|--|
| | | Mayor appoints library board members with approval of city council | |
| Keeps library board informed of library activities, needs and concerns. | Stays informed about library activities, needs and concerns. | | |
| Prepares a draft budget request. | Reviews draft budget request including line items. | | |
| | Approves final budget request based on board approved priorities. | | |
| | Supports and advocates for budget request when presented to city. | Appropriates bottom line funding for library. | |
| Explains monthly library expenditures to the board. | Approves monthly expenditures; ultimately and legally responsible for how funds are spent. | | Pays expenditures approved by library board. |
| Provides library board with monthly financial reports | Review monthly financial reports; prioritizes needs to match available funding (has authority to shift funds from one line item to another as needed) | | Provides library with monthly report showing paid expenditures and status of budget. |
| Informs city council, mayor, city staff about library activities, needs and concerns. | Informs city council, mayor, city staff about library activities needs and concerns. | Stays informed about library activities, needs and concerns. | Stays informed about library activities, needs and concerns. |