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Financial basics

Library directors and board members will benefit from learning:

- Who in the local government handles payroll, accounting for expenses, management of revenues, and oversees the budgeting process for the local government. These individuals can answer questions and help library directors and board members manage the library’s budget.
- What revenues fund the library? Where do they come from and when does the library receive them? What options are available for increasing the revenue amounts?
- About the [Local Government Budget Act \(Title 7, Chapter 6, Part 40, MCA\)](#) This law covers what needs to be included in a budget, when it needs to be adopted, how it is adopted, and how it is amended. Local governments are required to follow this act.

Budgeting for the Library

The following practices may help with creating a budget for the library:

- Start early. Preliminary budgets are due to the local government by June 10. Library directors may not receive the paperwork until just before that time, but library boards and directors can start working on the budget in February or March.
- Collect information about potential salary increases, benefit increases, and increases in library expenses. If no information exists assume the expense will increase by the current rate of inflation.
- Create a list of needs and wants for library services, staff, and the building. Identify different funding sources. Some items may be good candidates for grant writing or one time only capital funds.
- Prioritize the list to identify what must be done and what can wait.
- Talk to local government officials about their expectations for the next fiscal year. Do they believe things will remain status quo? Will there be an increase? Will there be budget cuts?
- Work through a few different scenarios. Create draft budgets for maintaining funds at the current level and increasing it by half the rate of inflation (what the law allows). Identify what could be cut if there is a need to reduce the library’s budget.

Managing the Library's Finances

Wise fiscal management includes regular review of the library's finances.

- Review the following financial reports monthly (report ID is Black Mountain software's numbering system):
 - Statement of Expenditure – Budget vs. Actual (Report ID: B100). This report gives an overview of how much the library has spent on each line item. It shows current month, year to date (YTD), amount budgeted, and how much is remaining in the line item.
 - Statement of Revenue – Budget vs. Actual (Report ID: B110). This report shows how much revenue the library has received in the current month, year to date (YTD), the estimated amount to be received, and the difference between the estimate and what has been received.
 - Cash Report by Fund/Account (Report ID: L160). This report shows the library's cash balance and monthly changes to the cash balance. It will show what money has been deposited and spent during the current month. The ending balance is how much money the library has on hand. Cash is used to pay the library's bills and should be monitored to ensure the library has enough money to pay the bills.
 - Budget detail report (Report ID: B160) or spreadsheet with the list of claims. The detail report lists every transaction that occurred in the library account. It shows both revenues and expenses. If this report is not available, the director should create a spreadsheet with the list of claims for the prior month. The ideal is to use the existing report as it avoids duplication. Some boards find spreadsheets preferable.
- Create a system for the board to review claims. Consider asking 1 or 2 board members to work with the director. These board members will review and sign the claims. If the timing works out, the full board may wish to review and sign the claims at a monthly meeting. This usually does not work timing wise, so designating 1-2 board members as reviewers can help the library pay its bills in a timely manner. Rotate which boards members have this duty.
- Discuss the library's financial health.
 - Is the library receiving revenue as expected? This is necessary as revenue sources add to the library's cash balance. If revenues are not being received as expected find out why and if necessary, reduce spending.
 - Is the library cash balance adequate? Do you have enough funds to pay the bills? Do you have too much money in the cash account? There is a limit to the amount of money that local governments can carry. If you have too much money identify one time only needs the library can address with the additional cash. Work with your local government officials to complete the necessary paperwork.
 - Are expenditures as expected? The bottom line is the most important. It's okay if individual line items are under or over if the library is not going over the total amount budgeted. Is the library staying within the budget that was adopted? If not, why not? And does the amount the library has spent align with the revenue the library has received? It doesn't matter what budget was adopted if the library isn't receiving the estimated revenues.
 - Are there unexpected expenditures? While the board and director should be monitoring the overall budget it's good to communicate about any line items that are significantly higher than expected. If that is the case, what needs to happen to make sure the library stays within its budget? Does the library need to find

additional revenue – either through grants, a library Friends’ group, or depreciation fund (if the overage is due to a facility or equipment/capital need)? Or does the library need to reduce expenses to make up for the difference?

- Create a plan for maintaining and updating library facilities. Work with either your local government facility person or an engineer to assess the library’s building and equipment. This will help you identify what needs to be done to maintain and upgrade the library. It’s helpful to include cost estimates, so library directors and board members know how much money needs to be raised to pay for the item.
- Work with local government officials to either create a [library depreciation fund](#) or a line item within the local government’s capital improvement fund to cover the costs of capital expenditures and upgrades. The library board and director can request that any leftover funds in the library’s budget be transferred to a library depreciation fund or the capital improvement fund to set aside funds for large capital expenditures.

Resources

[Montana Municipal Officials Handbook](#) – has an excellent chapter about financial management that is valuable for city, county, or district libraries.

[Local Government Services Bureau](#) – has resources for budgeting, financial management, and auditing. Includes training materials for local government officials that libraries can review.

[Montana Association of Counties](#) – budget resources include links to information about taxable values, county budget information, and entitlement share.

[Montana League of Cities and Towns](#) – budget resources page includes information about inflationary factors and calculating mill levies.