

# The Board and the Budget: Monitoring Financial Reports



## *Defining your financial role*

New board members require some time for orientation. Nevertheless, board membership implies immediate accountability for the library's financial affairs. There is no doubt that the board's role in relation to finances can be quite complicated. The board's financial responsibilities are clearly outlined in the *Public Libraries Act, R.S.O. 1990, c.p.44 (the Act)*.

In its accountability to the municipal council, the province and the people it represents, the board undertakes to guarantee that the allocated funds are spent to best meet the needs of the community and in accordance with the planned budget. This accountability means more than simple bookkeeping. Once council has approved the budget, the board must scrutinize the financial operations of the library. The board must consider its role very carefully here. *Scrutiny* by the board means review to ensure that the financial affairs of the library are being well-managed, NOT to actually manage the financial affairs of the library. The board has already hired a competent Chief Executive Officer (CEO) to do that job.

There is a difference between monitoring the finances and running the library. Boards do not have time for day-to-day involvement. Their role is to see that the library is well-managed by constantly being alert to community needs, securing adequate funding and ensuring that the expenditure of library funds fulfils the library's stated goals and objectives.

## *Board treasurer*

The *Act* states that the board must appoint a treasurer. Most public library boards in Ontario appoint the CEO as Treasurer and Secretary of the board because the CEO, as manager and administrator, is the person most likely to be aware of the day-to-day financial picture. The duties of the treasurer, according to the *Act*, include receiving and accounting for all of the board's money, opening the appropriate accounts in the name of the library board, depositing all money to the credit of those accounts and disbursing the money as the library board directs. The treasurer must also ensure that proper financial records are maintained. The next requirement is regular reporting to the library board.

It is important to note that these procedures may differ depending on the financial arrangements. For example, the library board may establish a service contract for financial services through the municipal or county offices. While the final word on spending the funds remains the prerogative of the library board, there may be local processes at the municipal or county office through which these actions occur.

# The Board and the Budget: Monitoring Financial Reports

## The board and the budget process

It is somewhat less daunting to consider the board's financial responsibilities as part of the larger budget process. The budget process is a year-round activity involving a series of stages. Before the budget process is finalized for one year, work should have already begun on the next year's budget. The chart below shows two (and part of a third) cycles of budget work for a library board beginning with gathering information and concluding with a financial audit.

Summer - Year 1	Gather information		
	Prepare preliminary budget		
Fall – Year 1	Present to Finance Committee (if such a committee is used)		
	Present to Library Board		
	Present to Municipal Council(s)		
Winter - Year 1	New fiscal year (Implement budget)		
Spring - Year 1	Implement and Monitor		
Summer - Year 2	Implement and Monitor	Gather information	
		Prepare preliminary budget	
Fall – Year 2	Implement and Monitor	Present to Finance Committee	
		Present to Library Board	
		Present to Council	
Winter - Year 2	End of fiscal year (close budget)	New fiscal year (Implement budget)	
Spring - Year 2	Evaluate	Implement and Monitor	
	Audit		
Summer - Year 3		Implement and Monitor	Gather information
			Prepare preliminary budget
Fall – Year 3		Implement and Monitor	Present to Finance Committee
			Present to Library Board
			Present to Municipal Council
Winter – Year 3		End of fiscal year (close budget)	New fiscal year (Implement budget)
Spring – Year 3		Evaluate	Implement and Monitor
		Audit	

## Monitoring

Fortunately, the cyclical nature of the budget process allows new board members to "jump in" quite easily. The monitoring phase is a convenient place to begin.

The experienced board member views the monitoring phase of the budget process as vital in achieving responsible governance of library affairs. The tools most frequently used by library boards to ensure accountability are the 1) audit and 2) monthly financial reports.

# The Board and the Budget: Monitoring Financial Reports

---

## The board and monthly financial reports

By reviewing and approving regular financial reports, the board not only fulfils its legal requirements and avoids being taken by surprise, but also, and perhaps more importantly, tracks the progress towards achieving established goals and objectives.

The monthly financial report compares the amount of money actually spent and received with the projected targets set in the budget. It should give a current, accurate and up-to-date picture of library finances. Careful review of the monthly reports will alert the board to discrepancies before they become major problems.

### *What should the monthly financial report look like?*

Presented at each regular board meeting, this report should give a current accounting of expenditures to date as well as a comparison of expenditures with the overall annual budget. The report should follow the structure and categories of the budget and list, in separate columns, the current month's revenues and expenditures, those for the year to date and finally the budgeted amounts for the entire year. Some libraries suggest that a comparison be made with the previous year as well while others include a column indicating the percentage of the budget spent to date. A "variance" column may also be included to indicate if a particular line item is over or under-spent.

### *Knowing what questions to ask?*

The monthly financial report should trigger a number of questions for each board member. Responsible action will require diligent answers and a clear understanding of the implications of these answers. However, questions surrounding the monthly financial report should not draw the board into the day-to-day operations of the library. Boards should not be involved in discussions over what titles are purchased but would want to question the expenditure of 95% of the annual materials/book budget in the first month of the fiscal year. Asking appropriate questions relating to the library's finances is crucial to accountability. The major concern of the board should be whether the money expended allows the library to achieve its stated goals and objectives and provide the services that meet the needs of the community.

### *Some questions to ask yourself about the financial report:*

The following questions may guide you in your review of financial reports:

1. Will we be on target until the end of the year if we continue with current expenditure trends?
2. Do we have sufficient cash-flow to manage until the next month-end? Until year end?
3. If line items are over-spent, is there any action we need to take?
4. Do the spending priorities reflected in this financial report indicate that we, are meeting the community's needs?
5. Do the spending priorities reflected in this financial report reflect our mission, goals and objectives?
6. How does this financial report compare with that of the previous year for the same period?
7. Is supporting documentation available and understandable?

# The Board and the Budget: Monitoring Financial Reports

## Sample monthly financial report

Included below and on the next page is a sample monthly financial reports for the fictional Harmony Hill Public Library. You will see that the reference numbers for the Ministry's **Annual Survey of Public Libraries (ASPL)** have been included with the budget lines (this will help to arrange the budget lines so that the ASPL is easier to complete. The first page shows the revenue side of the budget and the second page shows expenditures.

In reviewing this financial report, there are questions which might be considered to ensure that you understand the library's commitment to possible expenses – and whether the financial situation is on target to stay within the projected budget. These questions focus on planned expenditures and revenues in keeping with identified goals and objectives, rather than suggesting involvement in daily operations.

### Questions you might ask as a Board member

- **Print Materials** – Circulation figures for the month and year are showing a significant increase? Do we know what accounts for that? Do we need to adjust our materials budget to accommodate this?
- **Electronic Materials** – while we are at 83% of the year, the budget is 99% spend. Does this amount include to costs for OverDrive for this current year and other planned e-resources collections?
- **Furnishings** – The furnishing line (within Facilities/Utilities section) is only 29% spent. A new computer table was listed. Will we be able receive and pay for it within this financial year?
- Hydro costs are lower than expected – Are we up-to-date on the bills or has there been some delay?
- Programming Costs are currently over-budget. Do we need to add additional funds to cover Christmas/Holiday programming this year? -

Category	Revenue	2018 Budget	Actual (to Oct 31/18)	% of budget (to Oct 31/18)	Actual October 2018
<b>Operating Grants</b>	Provincial Public Library Operating Grant/ PLOG (ASPL- B2.1.1)	\$12,144	\$12,144.00	100%	
	Pay Equity Grant (ASPL- B2.1.2)	\$877	\$877.00	100%	
	Local Operating Grant (ASPL- B2.2)	\$ 93499	\$ 93499	100%	
	<i>Total for operating grants</i>	<i>\$106,520</i>	<i>\$106,520.00</i>		
<b>Project Grants</b>	Provincial – ILDS (note offered in 2018)	\$	\$		
	Federal-Canada Summer Jobs (Student)	\$1,685	\$1,685.00	100%	
	<i>Total for project grants (ASPL- B2.4)</i>	<i>\$1,685</i>	<i>\$1,685.00</i>		
Donations	Donations (ASPL- B2.5)	\$1,000	\$3,006.00	300%	
Self-generated revenue	Fines	\$700	\$483.25	69%	
	Photocopier & Printing fees	\$1,500	\$942.75	62%	
	<i>Total for self-generated revenue (ASPL- B2.6)</i>	<i>\$2,200</i>	<i>\$1,426.00</i>		
Other Revenue	Postage Reimbursement (from SOLS)	\$100	\$120.00	120%	
	Connectivity Reimbursement (from SOLS)	\$1,200	\$1,210.00	101%	
	HST Rebate	\$450	\$229.23	50%	
	<i>Total for other revenue (ASPL- B2.8)</i>	<i>\$1,750</i>	<i>\$1,559.23</i>		
	<b>Total revenue</b>	<b>\$113,155</b>	<b>\$114,196.23</b>		

## The Board and the Budget: Monitoring Financial Reports

Category	Expenditures	2018 Budget	Actual (to Oct 31/18)	% of budget (to Oct 31/18)	Actual October 2018
Staffing costs	Staff Salaries	\$52,000	\$43,160.00	83%	
	MERC - CPP	\$2,200	\$1,826.00	83%	
	MERC - EI (Employment Insurance)	\$1,200	\$996.00	83%	
	EHT Employer Health Tax)	\$1,200	\$996.00	83%	
	WSIB	\$300	\$300.00	100%	
	OMERS (Pension)	\$4,680	\$3,884.00	83%	
	<i>Total for staffing costs (ASPL- B4.2)</i>	<i>\$61,580</i>	<i>\$51,162.00</i>		
Staff training	Professional development (workshops)	\$1,500	\$651.67	43%	
	Travel to attend	\$150	\$157.98	102%	
	<i>Total for staff training (ASPL- B4.3)</i>	<i>\$1,650</i>	<i>\$809.65</i>		
Materials	General (books & magazines) (ASPL B4.1.1)	\$10,000	\$9,130.00	91%	
	CD & DVDs (ASPL B4.1.2)	\$2,000	\$1,950.00	97%	
	Electronic (downloadable media, ebooks) (ASPL B4.1.2)	\$2,000	\$1,995.00	99%	
	<i>Total for materials expenditures</i>	<i>\$14,000</i>	<i>\$13,075.00</i>		
Facilities & Utilities	Heat (Oil)	\$10,000	\$7,900.00	79%	
	Hydro	\$4,000	\$3,003.00	75%	
	Insurance (Building)	\$7,050	\$7,050.00	100%	
	Furnishings (Chairs, Shelving, etc.)	\$1,000	\$289.00	29%	
	Maintenance (including rug cleaning)	\$600	\$504.28	84%	
	Maintenance agreement (Photocopier)	\$300	\$300.00	100%	
	<i>Total for facilities/utilities (ASPL B4.4)</i>	<i>\$22,950</i>	<i>\$19,046.28</i>	<i>82.90%</i>	
Tele comm. costs	Telephone (ASPL B4.5.1)	\$1,000	\$678.99	68%	
	Internet (ASPL B4.5.2)	\$1,500	\$1,200.00	80%	
	<i>Total for telecommunications</i>	<i>\$2,500</i>	<i>\$1,878.99</i>	<i>75%</i>	
Computer services	Computer Equipment & Software	\$1,500	\$1,268.70	85%	
	Computer Maintenance contract	\$1,500	\$1,386.69	92%	
	ILS system	\$3,000	\$2,279.87	75%	
	<i>Total for computer services (ASPL B4.6)</i>	<i>\$6,000</i>	<i>\$4,935.26</i>	<i>82%</i>	
Other exp.	Audit service	\$2,000	\$2,000.00	100%	
	Postage (ILL & Overdues)	\$100	\$188.00	188%	
	Promotion & Advertising costs	\$400	\$533.69	133%	
	Programming costs	\$600	\$680.14	110%	
	Office supplies	\$800	\$580.56	72%	
	Professional memberships	\$400	\$400.00	100%	
	Bank charges	\$175	\$132.50	75%	
	<i>Total for other expenditures (ASPL4.10)</i>	<i>\$4,475</i>	<i>\$4,514.89</i>	<i>101%</i>	
	<b>Total expenditures</b>	<b>\$113,155</b>	<b>\$85,422.07</b>	<b>76.00%</b>	

# The Board and the Budget: Monitoring Financial Reports

---

## Supporting documentation

The Treasurer should be prepared to answer any questions pertaining to the financial report or the library's financial position. Certain support documentation may also be included. For example, an explanation of significant increases or decreases, new or deleted budget items or programs should also be noted on the report.

A comparison with last year's budget at the same point in time may prove useful, especially if the library is experiencing increased operational costs (high heating bills during a cold spell) or decreased revenues (withheld grant monies affecting interest-earning capabilities).

## *The value of board policies*

The wise board in any library fulfils its responsibility by establishing clear financial policies which ensure that the board meets the requirements of the act and accepted accounting procedures. These policies also allow the staff to function within clearly defined levels of authority, with enough scope and flexibility to do the job with integrity and initiative. Limitations are set to protect staff as well as to ensure board accountability.

Financial policies include basic guidelines defining such items as which officers have signing authority or the number of signatures required on a cheque. These policies can also define broader restrictions such as the limits on spending authority. Such policies provide strict boundaries for the staff financial officer to pay bills and authorize expenditures without requiring the use of valuable board time to approve each and every disbursement.

A financial policy limiting spending authority minimizes the need for board involvement at this level. However, it is recognized that certain small boards may still require this level of control. A sample policy on signing authority and spending limits is included for reference.

### *Sample policy*

Signing officers for the Harmony Hill Public Library Board in each fiscal year will include the Chief Executive Officer and anyone of the following:

- Chair of the Board
- Vice-chair of the Board
- Treasurer of the Board (if not the CEO).

The Chief Executive Officer and anyone of the officers named above may sign cheques for any budgeted amount. Cheques for non-budgeted amounts must be ratified by a special motion of the board.

# The Board and the Budget: Monitoring Financial Reports

---

## *The board and the audit*

The library board is a corporation and, by law, the accounts of a corporation must be audited annually. Ontario's library legislation also directs that the board "shall submit its annual financial statements, audited by a person appointed under the *Municipal Act*, to the council annually on or before the date specified by council".

Note: The *Public Libraries Act* has more audit requirements than the *Municipal Act*. It is a condition of *PLA Reg. 976* that libraries supply financial statements to the Minister. It is acceptable for a library board to supply its financial information in a consolidated audited financial statement (as noted in *Municipal Act*, s. 296), **provided** that the library's financial information is provided in a **separate** schedule or appendix.

An audit is a straightforward process if the library has kept its records honestly and accurately. In preparing for an audit, the treasurer should make sure that he or she has gathered together all of the financial records for the period being audited. It is standard procedure during an audit that the treasurer be asked for explanations for expenditures or revenue and for documentation (cancelled cheques, receipts, bills) to substantiate expenditures. In general, the library should benefit from an audit since it will have an independent statement as to the accuracy of its financial records.

The auditor makes an official report which includes an annual financial statement for the library, outlining the library's financial position at the year's end. This report should be distributed to all board members and municipal councilors, and copies should be kept on file by the CEO.

A library board can request a "management letter" as part of the audit process. This will give an objective opinion of the board's financial systems and practices and make suggestions as to how they may be improved. It should not be taken as a criticism of the current administration but should be reviewed by the board with a view to instituting better methods in the future.

Despite its official nature, the audit is merely a formal statement that reflects monies correctly and legitimately spent. In the long run, however, it may not be as important to the accountability process as the monthly financial report.

## **In conclusion:**

The role of the board in financial governance is a critical one, yet it is often misunderstood. A combination of clear goals, achievable Objectives, solid financial policies and sound budgeting procedures and practices are all part of this role. Financial reports are excellent monitoring tools to assist the board in achieving financial governance without over-stepping the limits of board authority. They provide the board with regular opportunities to assess how well the library uses its resources to meet its community's special needs, a crucial aspect of financial governance.

---

\*This publication was adapted from *Trustee Tips #3* – "The Board and the Budget: Monitoring Financial Reports" A publication of the Library Trustee Development Program, 1992.